TRAMMELL CROW CO
Form 10-Q
August 09, 2005

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 June 30, 2005

Or

o 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 Avenue **Suite 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 o

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

There were 35,648,481 shares of the registrant s common stock outstanding as of August 1, 2005.

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)

	June 30, 2005 (Unaudited)	December 31, 2004 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	$ 46,049	$ 163,637
Restricted cash	6,186	9,950
Accounts receivable, net of allowance for doubtful accounts of $2,975 in 2005 and $3,144 in 2004	97,378	103,551
Receivables from affiliates	7,649	1,626
Notes and other receivables	7,057	19,726
Income taxes recoverable	518	
Deferred income taxes	3,971	4,021
Real estate under development	40,541	16,027
Real estate and other assets held for sale	26,406	23,108
Available for sale securities	497	
Other current assets	27,465	18,066
Total current assets	263,717	359,712
Furniture and equipment, net	19,795	18,649
Deferred income taxes	21,567	22,935
Real estate under development	135,475	60,381
Real estate held for investment	104,935	122,703
Investments in unconsolidated subsidiaries	167,011	74,090
Goodwill, net	74,366	74,357
Available for sale securities	17,473	
Other assets	17,643	16,123
	$ 821,982	$ 748,950
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 24,548	$ 23,731
Accrued expenses	108,637	147,689
Payables to affiliates	45	40
Income taxes payable		18,121
Current portion of long term debt	4,629	6
Current portion of notes payable on real estate	32,287	14,193
Liabilities related to real estate and other assets held for sale	25,229	22,736
Other current liabilities	10,547	12,613
Total current liabilities	205,922	239,129
Long-term debt, less current portion	71,022	8
Notes payable on real estate, less current portion	155,437	114,079
Other liabilities	12,444	10,028
Total liabilities	444,825	363,244
Minority interest	37,143	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 35,529,131 shares outstanding in 2005 and 37,902,998 shares issued and 35,605,007 shares outstanding in 2004	379	379
Paid in capital	199,461	196,314
Retained earnings	195,140	190,252
Accumulated other comprehensive income	2,729	2,043
Less: Treasury stock	(41,628)	(36,921)
Unearned stock compensation, net	(16,067)	(11,117)
Total stockholders equity	340,014	340,950
	$ 821,982	$ 748,950

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 June 30, 2005	2004	For the Six Months Ended June 30, 2005	2004
REVENUES				
User Services:				
Facilities management	$ 59,391	$ 50,556	$ 114,528	$ 101,312
Corporate advisory services	40,116	33,744	64,789	56,278
Project management services	31,963	19,675	57,287	37,637
	131,470	103,975	236,604	195,227
Investor Services:				
Property management	34,468	34,762	68,555	69,324
Brokerage	33,676	28,710	61,456	50,859
Construction management	2,959	2,343	5,174	4,061
	71,103	65,815	135,185	124,244
Development and construction	9,387	8,336	18,223	16,343
	211,960	178,126	390,012	335,814
Gain on disposition of real estate	963	3,885	2,531	4,331
TOTAL REVENUES	212,923	182,011	392,543	340,145
COSTS AND EXPENSES				
Salaries, wages and benefits	132,818	112,793	258,559	228,945
Commissions	34,298	27,982	56,956	47,995
General and administrative	36,794	32,474	67,392	58,651
Depreciation and amortization	2,634	2,816	5,244	5,974
Interest	2,117	1,058	3,222	1,862
TOTAL EXPENSES	208,661	177,123	391,373	343,427
Operating income (loss)	4,262	4,888	1,170	(3,282)
Interest and other income	483	477	1,407	1,361
Income (loss) from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	4,745	5,365	2,577	(1,921)
Income tax (expense) benefit	(1,757)	(2,232)	(930)	826
Minority interest, net of income tax (expense) benefit of $(607), $445, $(1,834) and $470	1,263	(590)	3,251	(625)
Income from investments in unconsolidated subsidiaries, net of income tax expense of $(1,599), $(719), $(2,576), and $(5,035)	2,984	713	4,567	6,683
Income from continuing operations	7,235	3,256	9,465	4,963
Income (loss) from discontinued operations, net of income tax (expense) benefit of $(591), $21, $(481), and $(263)	1,029	(42)	852	350
Net income	$ 8,264	$ 3,214	$ 10,317	$ 5,313
Income per share from continuing operations:				
Basic	$ 0.22	$ 0.09	$ 0.28	$ 0.14
Diluted	$ 0.20	$ 0.09	$ 0.27	$ 0.13
Income (loss) per share from discontinued operations, net of income taxes:				
Basic	$ 0.03	$ 0.00	$ 0.03	$ 0.01
Diluted	$ 0.03	$ 0.00	$ 0.02	$ 0.01
Net income per share:				
Basic	$ 0.25	$ 0.09	$ 0.31	$ 0.15
Diluted	$ 0.23	$ 0.09	$ 0.29	$ 0.14
Weighted average common shares outstanding:				
Basic	33,422,946	35,545,234	33,555,988	35,521,715
Diluted	36,053,250	37,462,293	36,097,902	37,426,216

See accompanying notes.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
Six Months Ended June 30, 2005 (Unaudited) and Year Ended December 31, 2004 (Note 1)
(in thousands, except share data)

	Common Shares Issued	Treasury	Common Stock Par Value	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Unearned Stock Compensation	Total
Balance at January 1, 2004	37,783,595	921,353	$ 377	$ 192,336	$ 151,560	$ 1,106	$ (8,363)	$ (9,387)	$ 327,629
Net income					39,119				39,119
Issuance of restricted stock	28,000	(644,313)	1	2,846			5,870	(8,717)	
Forfeiture of restricted stock		32,632					(394)	304	(90)
Amortization of unearned stock compensation								6,683	6,683
Issuance of common stock	91,403	(366,118)	1	1,132	(427)		3,900		4,606
Stock repurchase		2,354,437					(37,934)		(37,934)
Foreign currency translation adjustment, net of tax						937			937
Balance at December 31, 2004	37,902,998	2,297,991	379	196,314	190,252	2,043	(36,921)	(11,117)	340,950
Net income					10,317				10,317
Issuance of restricted stock		(371,024)		2,189			6,541	(8,730)	
Forfeiture of restricted stock		172,475					(3,061)	389	(2,672)
Amortization of unearned stock compensation				676				3,391	4,067
Issuance of common stock	60	(695,657)		282	(5,429)		11,863		6,716
Stock repurchase		970,142					(20,050)		(20,050)
Foreign currency translation adjustment, net of tax						591			591
Unrealized holding gains/(losses) on available for sale securities, net of tax						95			95
Balance at June 30, 2005	37,903,058	2,373,927	$ 379	$ 199,461	$ 195,140	$ 2,729	$ (41,628)	$ (16,067)	$ 340,014

See accompanying notes.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	For the Six Months Ended June 30, 2005	2004
Operating activities		
Cash flows from earnings:		
Net income	$ 10,317	$ 5,313
Reconciliation of net income to net cash provided by earnings:		
Depreciation and amortization	5,366	6,126
Amortization of employment contracts and unearned stock compensation	4,502	3,618
Amortization of contract intangibles	1,172	1,069
Bad debt expense	67	487
Provision for losses and writedowns for impairment on real estate		672
Gain on disposition of real estate held for investment	(44)	(758)
Minority interest	(5,085)	1,095
Deferred income tax expense (benefit)	1,004	(1)
Income from investments in unconsolidated subsidiaries	(7,143)	(11,718)
Net cash provided by earnings	10,156	5,903
Changes in operating assets and liabilities:		
Restricted cash	3,764	967
Accounts receivable	6,117	2,604
Receivables from affiliates	(6,023)	(3,415)
Notes receivable and other assets	(13,201)	5,209
Real estate held for sale and under development	(53,019)	(21,456)
Notes payable on real estate held for sale and under development	38,008	20,553
Accounts payable and accrued expenses	(36,643)	(22,565)
Payables to affiliates	5	(51)
Income taxes payable	(18,639)	(5,804)
Other liabilities	2,028	1,391
Net cash flows from changes in working capital	(77,603)	(22,567)
Net cash used in operating activities	(67,447)	(16,664)
Investing activities		
Expenditures for furniture and equipment	(5,164)	(3,319)
Purchase of available for sale securities	(17,795)	
Additions to real estate held for investment	(21,047)	(28,882)
Net proceeds from disposition of real estate held for investment	44	14,860
Investments in unconsolidated subsidiaries	(100,255)	(1,346)
Distributions from unconsolidated subsidiaries	13,977	11,709
Net cash used in investing activities	(130,240)	(6,978)
Financing activities		
Principal payments on long-term debt and capital lease obligations	(78,332)	(113,943)
Proceeds from long-term debt	153,693	102,539
Contributions from minority interest	9,053	12,683
Distributions to minority interest	(11,581)	(2,560)
Proceeds from notes payable on real estate held for investment	24,090	9,944
Payments on notes payable on real estate held for investment	(3,490)	(13,407)
Proceeds from exercise of stock options	5,213	140
Proceeds from issuance of common stock	1,503	1,240
Purchase of common stock	(20,050)	
Net cash provided by (used in) financing activities	80,099	(3,364)
Net decrease in cash and cash equivalents	(117,588)	(27,006)
Cash and cash equivalents, beginning of period	163,637	105,616
Cash and cash equivalents, end of period	$ 46,049	$ 78,610

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 June 30, 2005	2004	For the Six Months Ended June 30, 2005	2004
Net income	$ 8,264	$ 3,214	$ 10,317	$ 5,313
Other comprehensive income:				
Foreign currency translation adjustments, net of tax expense (benefit) of $341 and $334 in the three and six months ended June 30, 2005, respectively, and $(157) and $(9) in the three and six months ended June 30, 2004, respectively	602	(224)	591	(25)
Unrealized holding gains/(losses) on available for sale securities, net of tax expense of $127 and $80 in the three and six months ended June 30, 2005, respectively	206		95	
Comprehensive income	$ 9,072	$ 2,990	$ 11,003	$ 5,288

See accompanying notes.

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2005
(dollars in thousands, except 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, 2004. 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, the recognition of incentive fees towards the latter part of the fiscal year as contractual targets are met and other factors may also cause quarterly fluctuations in the Company s results of operations.

Reclassifications

In accordance with Financial Accounting Standards 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, 2004, and certain revenues and expenses for the three months ended March 31, 2005, and the three and six months ended June 30, 2004, have been reclassified to conform to the presentation at and for the three months ended June 30, 2005 (see Notes 9 and 11). 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.

Marketable Securities

The Company accounts for investments in debt and equity securities in accordance with FASB Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115). The Company determines the appropriate classification of debt and equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company classifies marketable securities it acquires with the intent to generate a profit from short-term movements in market prices as trading securities. Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold the securities to maturity. Marketable equity and

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2005
(dollars in thousands, except per share data)
(Unaudited)

1. General (Continued)

debt securities not classified as trading or held to maturity are classified as available for sale. All of the marketable securities held by the Company at June 30, 2005 are classified as available for sale.

In accordance with FAS 115, the securities are carried at their fair market value and any difference between cost and market value is recorded as unrealized gain or loss, net of tax, and is reported as accumulated other comprehensive income in the consolidated statement of stockholders equity. Premiums and discounts are recognized in interest and other income using the effective interest method. Realized gains and losses and declines in value judged to be other-than-temporary on available for sale securities are included in interest and other income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available for sale are included in interest and other income.

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 are expected to be in effect when the differences reverse.

Earnings Per Share

The weighted-average common shares outstanding used to calculate diluted earnings per share for the three and six months ended June 30, 2005, include 2,630,304 and 2,541,914 shares, respectively, to reflect the dilutive effect of unvested restricted stock and options to purchase shares of common stock. The weighted-average common shares outstanding used to calculate diluted earnings per share for the three and six months ended June 30, 2004, include 1,917,059 and 1,904,501 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.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2005
(dollars in thousands, except per share data)
(Unaudited)

1. General (Continued)

Pro forma information regarding net income and net income 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*.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
Net income, as reported	$ 8,264	$ 3,214	$ 10,317	$ 5,313
Add: Stock-based employee compensation expense included in net income, net of related tax effects	967	963	2,028	1,657
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,133	1,485	2,926	2,691
Pro forma net income	$ 8,098	$ 2,692	$ 9,419	$ 4,279
Net income per share:				
Basic as reported	$ 0.25	$ 0.09	$ 0.31	$ 0.15
Basic pro forma	$ 0.24	$ 0.08	$ 0.28	$ 0.12
Net income per share:				
Diluted as reported	$ 0.23	$ 0.09	$ 0.29	$ 0.14
Diluted pro forma	$ 0.22	$ 0.07	$ 0.26	$ 0.11

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 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 June 30, 2005, the estimated settlement value of non-controlling interests in the Company s consolidated limited life subsidiaries is $9,086, as compared to book value (included in minority interest on the Company s balance sheet) of $6,001. The excess of settlement value over book value is driven by an even larger estimated appreciation of certain consolidated real estate assets and investments compared to the Company s book value, offset by selling costs and debt prepayment penalties, if any.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2005
(dollars in thousands, except per share data)
(Unaudited)

1. General (Continued)

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 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.

In April 2005, the SEC deferred the implementation date of FAS 123R to become effective for annual periods beginning after June 15, 2005, or January 1, 2006 for the Company. 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.

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 employee stock options. Accordingly, the adoption of FAS 123R s fair value method could have a significant impact on the Company s results of operations, although it will have no impact on the Company s overall financial position. The 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, had the Company adopted FAS 123R, the impact of that standard would have approximated the impact of FAS 123 as described in the disclosure of pro forma net income and earnings per share in this Note 1.

In June 2005, the FASB ratified the consensus in 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). To promote consistency in applying this guidance to corporate entities and those entities that hold real estate:

- the EITF amended Issue No. 96-16, *Investor s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Interest Shareholder or Shareholders Have Certain Approval or Veto Rights* (EITF 96-16), and

- the FASB staff issued FSP No. SOP 78-9-1, *Interaction of AICPA Statement of Position 78-9 with EITF Issue No. 04-5* (FSP SOP 78-9-1) which amends AICPA Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures*, to reflect the consensus reached in EITF 04-5.

EITF 04-5 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 which are based on the concept discussed in EITF 96-16 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.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2005
(dollars in thousands, except per share data)
(Unaudited)

1. General (Continued)

The effective date for applying the guidance in EITF 04-5 and FSP SOP 78-9-1 is (1) June 29, 2005, for all new limited partnerships and existing limited partnerships for which the partnership agreements are modified, and (2) no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005, for all other limited partnerships. The effect of initially applying this guidance may be accounted for similarly to a change in accounting principle or by restating the financial statements of prior periods. The amendments to EITF 96-16 are to be applied prospectively to new investment agreements and to investment agreements that are modified after June 29, 2005. Retrospective application is not required for investments in limited partnerships for which the entity is no longer a general partner as of the date that the guidance in EITF 04-5 is adopted.

The Company has not entered into any new limited partnerships or amended any existing limited partnerships that require application of EITF 04-5 in its June 30, 2005 financial statements. The impact of adopting EITF 04-5 cannot be predicted at this time, however, the Company anticipates that the adoption will not impact net income, earnings per share or stockholders equity. The Company is evaluating the impact of the new guidance on its existing limited partnerships. The Company plans to account for any initial effect of applying the new guidance under the method similar to a change in accounting principle.

2. Variable Interest Entities

The Company was involved in the formation of a legal entity to act primarily as an agent of the Company to enter into policies with insurance carriers. The policies are for various types of insurance, including general liability, workers compensation and auto. The entity is wholly-owned by an employee of the Company who holds the appropriate local insurance agent s license required to issue these insurance policies on behalf of the insurance carriers. The entity collects premiums and remits them to the insurance carriers. In exchange, the entity receives commissions from the insurance carriers and remits a portion of the commission revenue to the Company (determined at the Company s full discretion) in accordance with a facilities and services agreement. Based upon its evaluation, the Company consolidates this entity as the primary beneficiary of a variable interest entity (VIE) under FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities* (FIN 46R). As of June 30, 2005, the Company has $2,913 recorded in restricted cash and $357 recorded in available for sale securities that serve as collateral for the VIE s obligations to the insurance carriers.

In January 2005, the Company restructured a consolidated entity established to develop an office building by admitting a majority interest partner. Based upon its evaluation at this reconsideration event, the Company consolidates this entity as the primary beneficiary of a VIE. The entity s note payable balance of $22,489 at June 30, 2005, is non-recourse to the Company and is collateralized by the real estate project.

In May 2005, the Company obtained a 0.01% managing interest in an entity established to make loans to a Qualified Active Low-Income Community Business through a program enacted by the Community Renewal Tax Relief Act of 2000. The entity made two qualified loans to a single borrower totaling $34,500. The entity s equity used to fund the loans was contributed by its 99.99% investor member. The Company

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2005
(dollars in thousands, except per share data)
(Unaudited)

2. Variable Interest Entities (Continued)

has determined that this entity is a VIE. However, based upon its evaluation, the Company has determined it is not the primary beneficiary of the entity. The Company believes that its maximum exposure to loss as a result of its involvement with this VIE is not material. Additionally in May 2005, the Company obtained a 49% membership interest in a related entity that acts as the administrative member performing servicing and tax matters for the above referenced entity. Based upon its evaluation, the Company has determined that this entity is also a VIE since the entity s equity was funded from up-front fees received from the above referenced entity. However, based upon its evaluation, the Company has determined it is not the primary beneficiary of the entity. The Company believes that its maximum exposure to loss as a result of its involvement with this VIE is not material.

In September 2004, the Company issued a budget guaranty relating to a development project. Under the budget guaranty, the Company is responsible for all costs in excess of an approved budget of approximately $35,400. The Company was involved in the design of the underlying entity and has determined that its budget guaranty represents a variable interest in a VIE for which the Company is not the primary beneficiary. The Company cannot estimate its actual maximum exposure to loss as a result of its involvement with this VIE because the budget guaranty is unlimited. However, based on the Company s experience of minimal payments under similar arrangements and the existence of a guaranteed maximum price contract between the general contractor and the owner of the project that mitigates the Company s risk, the Company believes that its exposure to loss is not material.

The Company is part of a co-lender group with an independent third party that issued a mezzanine loan to the owner of two office buildings. In April 2000, the Company provided $567 of the total $5,667 mezzanine loan. At that time, another independent third-party lender provided the senior financing of $19,100 to the owner. The Company also provides building management and leasing services for the buildings 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 property, which the Company believes is a VIE. However, based upon the Company s evaluation, the Company is not the primary beneficiary of the entity, and, therefore, the Company has not consolidated the VIE. The VIE sold one of its buildings in December 2004 and paid a portion of the Company s note receivable at that time. The Company s maximum exposure to loss as a result of its involvement with this VIE is limited to its outstanding note balance of $430 as of June 30, 2005.

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3. Real Estate

All real estate is included in the Company s Development and Investment segment (see Note 14). Certain real estate assets owned by the Company secure the outstanding balances of underlying mortgage or construction loans. Real estate owned by the Company consists of the following:

	June 30, 2005	December 31, 2004
Real estate under development (current)	$ 40,541	$ 16,027
Real estate included in assets held for sale (see Note 9)	14,153	21,874
Real estate under development (non-current)	135,475	60,381
Real estate held for investment(1)	104,935	122,703
	$ 295,104 (2)	$ 220,985 (2)

(1) Net of accumulated depreciation of $1,510 and $802 at June 30, 2005, and December 31, 2004, respectively.

(2) Includes $2,876 and $1,146 at June 30, 2005, and December 31, 2004, respectively, of lease intangibles and tenant origination costs, net of accumulated amortization.

In the six months ended June 30, 2004, the company recorded provisions for losses on real estate of $94 to increase the allowances on real estate held for sale to reduce the carrying value of assets to fair value less cost to sell. This amount is included in general and administrative expenses in the consolidated statement of income. No such provisions were recorded in 2005.

In the six months ended June 30, 2004, the Company recorded writedowns for impairment of real estate (not classified as held for sale at the time of such writedowns) totaling $578. Of this amount, $120 is included in discontinued operations in the consolidated statements of income in accordance with FAS 144. The remaining amount is included in general and administrative expenses in the consolidated statements of income. The writedowns for impairment primarily relate to a vacant land parcel in a market in which rental rates continued to decline and vacancy rates continued to increase at the time of the writedown. The Company obtained market comparisons for the land parcel and determined that, based on those market comparisons, the value of the land was impaired. There were no such writedowns for impairment in 2005.

In 2004, the Company sold a 150-acre land parcel to a third party for cash of $30,010. At the time of sale, a consolidated subsidiary of the Company (other than the entity that sold the property) held a purchase contract on seven acres of the 150-acre land parcel. As a result, the Company recorded the transaction related to the seven-acre parcel as a financing transaction, rather than a sale. As of June 30, 2005, real estate and other assets held for sale includes $344 of real estate, and liabilities related to real estate and other assets held for sale includes $1,386 of notes payable, related to this seven-acre land parcel.

In 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

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3. Real Estate (Continued)

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 was recorded as a financing transaction rather than a sale. As of June 30, 2005, real estate and other assets held for sale includes $1,408 of real estate and $3 of other current assets, and liabilities related to real estate and other assets held for sale include $1,750 of notes payable and $211 of accrued interest, all related to this parcel of land.

4. Marketable Securities

The following is a summary of marketable securities held by the Company at June 30, 2005, all of which are classified as available for sale. The Company held no marketable securities at December 31, 2004.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities and obligations of U.S. government agencies	$ 5,818	$ 72	$ (1)	$ 5,889
Corporate debt securities	3,543	50	(4)	3,589
Asset-backed securities	1,663	4	(2)	1,665
Collateralized mortgage obligations	1,113	4	(2)	1,115
Total debt securities	12,137	130	(9)	12,258
Equity securities	5,658	257	(203)	5,712
Total available for sale securities	$ 17,795	$ 387	$ (212)	$ 17,970

The net carrying value and estimated fair value of debt securities at June 30, 2005, by contractual maturity, are shown below. Actual repayment dates may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Amortized Cost	Estimated Fair Value
Debt securities:		
Due in one year or less	$ 497	$ 497
Due after one year through five years	4,235	4,243
Due after five years through ten years	4,129	4,228
Due after ten years	500	511
Asset-backed securities	1,113	1,115
Collateralized mortgage obligations	1,663	1,664
Total debt securities	$ 12,137	$ 12,258

The Company recorded no significant realized gains or losses related to sales of marketable securities in the first half of 2005.

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5. Investments in Unconsolidated Subsidiaries

Investments in unconsolidated subsidiaries consist of the following:

	June 30, 2005	December 31, 2004
Real estate	$ 40,135	$ 39,829
Other	126,876	34,261
	$ 167,011	$ 74,090

In April 2005, the Company exercised its option to acquire additional shares 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 exercise of the option resulted in the issuance of 5,243,229 shares by Savills at a price of 701.28 pence per share, for a total cost of £36,770 ($70,392). The exercise price represented a 20% premium to the average mid-market closing price of the shares in trading on the London Stock Exchange for the five trading days preceding the exercise of the option. Preceding its exercise of the option, also in April 2005, the company acquired 1,677,970 of Savills Ordinary Shares in open market purchases at an average price of 650.00 pence per share, having the effect of reducing the number of shares purchasable under the option. The option exercise and the market purchase together increased the Company s ownership stake to approximately 19.6% of Savills Ordinary Shares then outstanding. The aggregate cost of the market purchases and the shares issued upon exercise of the option was $91,272. The purchases were funded by borrowings under the Company s line of credit. The investment is classified as an other investment in the table above.

The Company is in the process of completing its purchase price allocation of this additional ownership interest in Savills. Of the total purchase price, approximately $4,172 has been allocated to the value of customer relationships, property and facilities management contracts and backlog. This amount is being amortized over periods up to ten years. The estimated difference between the carrying value of the investment and the amount of underlying equity in net assets of $66,193 will be evaluated for impairment as part of the investment as a whole when evidence of a loss in value occurs. Impairment charges would be recognized when losses in value are other than temporary.

The summarized financial information below does not include the results of Savills as Savills qualifies as a foreign private issuer.

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5. Investments in Unconsolidated Subsidiaries (Continued)

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

	For the Three Months Ended June 30, 2005	2004	For the Six Months Ended June 30, 2005	2004
Total revenues	$ 27,518	$ 19,395	$ 47,065	$ 76,331
Total expenses	21,137	17,198	38,901	36,371
Net income	$ 6,381	$ 2,197	$ 8,164	$ 39,960

6. Accrued Expenses

Accrued expenses consist of the following:

	June 30, 2005	December 31, 2004
Payroll and bonuses	$ 33,869	$ 67,315
Commissions	24,635	36,171
Development costs	20,205	16,601
Deferred income	14,445	13,160
Interest	566	455
Insurance	2,325	2,150
Restructuring charges (see Note 15)	1,699	1,902
Other	12,792	11,229
	110,536	148,983
Less: Accrued expenses included in liabilities related to real estate and other assets held for sale (see Note 9)	1,899	1,294
	$ 108,637	$ 147,689

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7. Long-Term Debt

Long-term debt consists of the following:

	June 30, 2005	December 31, 2004
Borrowings under $175,000 line of credit with a bank (the Credit Facility)	$ 71,000	$
Borrowings under $25,000 short-term revolving line of credit with a bank (the Swing Line)	4,500	
Borrowings under £1,100 short-term borrowing facility with a bank (the European Facility)	118	
Other	33	14
Total long-term debt	75,651	14
Less: Current portion of long-term debt	4,629	6
	$ 71,022	$ 8

During June 2005, the Company entered into the Credit Facility and the Company s previous $150,000 line of credit was terminated. The Company repaid borrowings outstanding under the previous line of credit with proceeds from the Credit Facility. Under the Credit Facility, the Company can obtain loans, which are 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. Interest is payable in periods up to six months at the Company s discretion. The interest rate for borrowings under the Credit Facility was 4.9% at June 30, 2005.

The shares of certain subsidiaries of the Company, accounting for at least 80% of Adjusted Gross EBITDA, as defined in the Credit Facility agreement, are pledged as security for the Credit Facility.

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, plus, for the year ending December 31, 2005 only, an amount equal to $20,000. There are also certain restrictions on investments and acquisitions that can be made by the Company. At June 30, 2005, 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 credit available to the Company under the Credit Facility to an amount less than the $175,000 commitment. At June 30, 2005, the Company has unused borrowing capacity of $88,595 (taking in account borrowings and letters of credit outstanding) under its Credit Facility.

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7. Long-Term Debt (Continued)

Under the Credit Facility, the Company pays a quarterly fee equal to 0.25% per annum of the unused commitment under the line. 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 swap agreements for the Company s indebtedness in excess of $30,000 ensuring the net interest is fixed.

The Swing Line is a component of the Credit Facility. Borrowings under the Swing Line mature five business days from the date drawn (no later than June 28, 2008) and bear interest at a 30-day LIBOR-based rate (plus an applicable margin as defined in the agreement). Borrowings under the Swing Line reduce borrowing capacity under the Credit Facility.

8. Notes Payable on Real Estate

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

	June 30, 2005	December 31, 2004
Current portion of notes payable on real estate	$ 32,287	$ 14,193
Notes payable on real estate included in liabilities related to real estate and other assets held for sale (see Note 9)	23,330	21,432
Total notes payable on real estate, current portion	55,617	35,625
Notes payable on real estate, non-current portion	155,437	114,079
Total notes payable on real estate	$ 211,054	$ 149,704

Notes payable on real estate held for sale are included in liabilities related to real estate and other assets held for sale. Notes payable on real estate under development (current) are included in current portion of notes payable on real estate. Notes payable on real estate under development (non-current) and real estate held for investment are classified according to payment terms and maturity date.

At June 30, 2005, $9,997 of the current portion and $8,912 of the non-current portion of notes payable on real estate are recourse to the Company (beyond being recourse to the single-purpose entity that holds the real estate asset and is the obligor on the note payable). With respect to a project to which $3,322 of the current recourse obligations relate, the Company has an agreement to sell the project upon completion, the proceeds of which will be used to repay the related note payable.

The Company has a participating mortgage loan obligation related to a real estate project classified as real estate under development (non-current). The participating mortgage loan is subordinate to a construction loan on the underlying project. The lender participates in net operating cash flow of the mortgaged real estate project, if any, and capital proceeds, net of related expenses, upon the sale of the project, after payment of amounts due under the construction loan. The lender receives 6% fixed interest on the outstanding balance of its note, compounded monthly, and participates in 35% to 80% of proceeds remaining after the construction loan is paid, based on reaching various internal rates of return. The amount of the participating liability and the related debt discount are $11,335 and $3,459, respectively, at

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8. Notes Payable on Real Estate (Continued)

June 30, 2005 and $10,030 and $4,894, respectively, at December 31, 2004. In the six months ended June 30, 2005 and 2004, the Company amortized $2,742 and $2,710, respectively, of the debt discount, which has been capitalized to real estate under development (non-current).

9. Real Estate and Other Assets Held for Sale and Related Liabilities

Real estate and other assets held for sale include completed real estate projects or land for sale in their present condition that have met all of the held for sale criteria of FAS 144 and other assets directly related to such projects. Liabilities related to real estate and other assets held for sale have been included as a single line item in the Company s balance sheet. In accordance with FAS 144, balances related to assets classified as held for sale at June 30, 2005, or sold in the six months ended June 30, 2005, that were not classified as held for sale at December 31, 2004, have been reclassified to real estate and other assets held for sale in the Company s balance sheet as of December 31, 2004 presented herein.

Real estate and other assets held for sale and related liabilities are as follows:

	June 30, 2005	December 31, 2004
Assets:		
Notes and other receivables	$ 11,957	$ 1,099
Real estate held for sale (see Note 3)	14,153	21,874
Other current assets	232	24
Other assets	64	111
Total real estate and other assets held for sale	26,406	23,108
Liabilities:		
Accrued expenses (see Note 6)	1,899	1,294
Notes payable on real estate held for sale (see Note 8)	23,330	21,432
Other current liabilities		10
Total liabilities related to real estate and other assets held for sale	25,229	22,736
Net real estate and other assets held for sale	$ 1,177	$ 372

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10. Stockholders Equity

A summary of the Company s stock option activity for the six months ended June 30, 2005, is as follows:

	Exercise Price of $3.85 (below market price at grant date)	Exercise price of $9.74 to $14.50 (at market price at grant date)	Exercise price of $14.51 to $22.75 (at market price at grant date)	Exercise price of $22.76 to $36.00 (at market price at grant date)	Total
Options outstanding:					
December 31, 2004	896,135	3,004,925	1,921,135	144,621	5,966,816
Granted					
Exercised	(229,143)	(140,776)	(199,472)		(569,391)
Forfeited	(52,821)	(26,127)	(12,056)		(91,004)
June 30, 2005	614,171	2,838,022	1,709,607	144,621	5,306,421
Options exercisable at June 30, 2005	614,171	2,578,815	1,709,607	144,621	5,047,214

11. Gain on Disposition of Real Estate and Discontinued Operations

During the first half of 2005, the Company recognized total gain on disposition of real estate (excluding discontinued operations) of $2,531. This gain was comprised of two sales of real estate projects with an aggregate net sales price of $2,337 and a settlement related to the estimated cost to complete construction related to a previous period disposition. This gain also included deferred gain recognition of $178 related to dispositions in prior periods. During the first half of 2004, the Company sold four real estate projects for an aggregate net sales price of $15,595, resulting in an aggregate gain on disposition of $3,993. The Company also recognized $338 of deferred gain from previous period dispositions.

The Company s discontinued operations include the operations and gains on disposition of real estate projects held for sale or sold subsequent to the adoption of FAS 144 effective January 1, 2002, that are considered components of an entity as defined by FAS 144 and for which the Company does not have or expect to have any significant involvement in the operations of the project after the disposal. The Company has certain real estate assets that are land parcels and 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 does not constitute a component of an entity within the meaning of paragraph 41 of FAS 144 until it is either classified as held for sale in accordance with FAS 144 or sold. As required by FAS 144, certain revenues and expenses for the three months ended March 31, 2005, and the three and six months ended June 30, 2004 have been reclassified to conform to the presentation for the three months ended June 30, 2005.

In the first six months of 2005, the Company sold five real estate projects that were considered discontinued operations under FAS 144. The aggregate net sales price for these projects was $28,522, and the Company recognized an aggregate gain on disposition of $1,962. In the first six months of June 30, 2004, the Company sold one real estate project that was considered a discontinued operation under

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11. Gain on Disposition of Real Estate and Discontinued Operations (Continued)

FAS 144. The net sales price for this project was $11,335, and the Company recognized a gain on disposition of $844, including interest forgiveness of $326. The gain on disposition related to these projects has been reported as discontinued operations, net of applicable income taxes, in the consolidated statements of income.

The components of discontinued operations are as follows:

	For the Three Months Ended June 30, 2005	2004	For the Six Months Ended June 30, 2005	2004
Revenues:				
Development and construction	$ 347	$ 468	$ 580	$ 791
Gain on disposition of real estate	1,878		1,962	844
Total Revenues	2,225	468	2,542	1,635
Expenses:				
Salaries, wages, and benefits	39		43	
Commissions				9
General and administrative	281	386	606	601
Depreciation and amortization	48	53	122	152
Interest	245	95	458	266
Total Expenses	613	534	1,229	1,028
Operating income (loss)	1,612	(66)	1,313	607
Interest and other income	8	3	20	6
Income from discontinued operations, before income taxes	1,620	(63)	1,333	613
Income tax (expense) benefit	(591)	21	(481)	(263)
Income (loss) from discontinued operations, net of income taxes	$ 1,029	$ (42)	$ 852	$ 350

12. Financial Instruments

The Company has entered into various interest rate agreements to manage market risks related to changes in interest rates, primarily in satisfaction of requirements under the Company s Credit Facility. The Company s participation in derivative transactions has been limited to risk management purposes. Derivative instruments are not held or issued for trading purposes.

In December 2004, 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 $5,073 at June 30, 2005, and the Company will receive payments if the LIBOR-based interest rate exceeds 3.5%. The interest rate cap agreement has not been designated as an effective hedge, and, therefore, the interest rate cap agreement will be marked to market each period with the change in fair market value recognized in

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12. Financial Instruments (Continued)

current period earnings. The interest rate cap agreement expires on January 1, 2006. Through June 30, 2005, amounts recorded by the Company related to this interest rate cap agreement were not material.

Accounts receivable, accounts payable and accrued expenses and other liabilities are carried at amounts that reasonably approximate their fair values. The fair values of the Company s long-term debt and notes payable on real estate reasonably approximate their fair values based on the Company s incremental borrowing rates for similar types of borrowing arrangements.

13. Commitments and Contingencies

The Company has guaranteed repayment of a maximum of $5,053 of real estate notes payable of its unconsolidated subsidiaries, all of which is outstanding at June 30, 2005. These notes are secured by the underlying real estate and have maturity dates through December 2009.

The Company issued several debt repayment guarantees of others that are subject to the fair value provisions of FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others* (FIN 45).

In 2004, the Company issued a debt repayment guaranty of an unconsolidated subsidiary in conjunction with a $30,000 loan agreement. As part of this loan agreement, the Company issued a repayment guaranty of up to 50% of the loan balance plus any accrued and unpaid interest. In accordance with the terms of the guaranty, at such time as the principal balance has been reduced to $15,000 or less and a target loan-to-value ratio has been reached, the Company s guaranty is reduced to 25% of the loan balance. In exchange for the guaranty, the Company receives a priority return with respect to its capital contribution based on the outstanding amount of principal on the loan. The Company estimates that its likely exposure under the guaranty is not material and has determined that the present value of the priority return is the best estimate of the fair value of the guaranty under FIN 45. The Company initially recorded a liability offset by an increase in its investment in unconsolidated subsidiary balance of $1,886. The underlying note was paid down to $15,000 in the second quarter of 2005, resulting in a decrease in the Company s guaranty. As a result of this decrease, the remaining liability balance is $472 at June 30, 2005.

In 2004, the Company also issued a $1,000 debt repayment guaranty on a $10,185 construction loan in order to obtain a development fee contract and allow a third-party owner to obtain financing for a construction project. The guaranty expires upon project completion and achievement of a specified leasing target. The third-party owner has agreed to transfer a separate parcel of land to the Company, should the Company be required to perform under the guaranty. The loan matures in November 2009. The Company estimates that its likely exposure under the guaranty is not material and has recorded the fair value of the guaranty in an amount equivalent to the consideration received, or $102. During 2004, the Company issued several other debt repayment guarantees of unconsolidated subsidiaries that are subject to the provisions of FIN 45. The Company estimates that its likely exposure under these guarantees is not material. On this basis, the Company estimates that the fair value of these guarantees is equivalent to the amount necessary to secure the guarantees using letters of credit from a bank, and the aggregate amount is nominal.

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13. Commitments and Contingencies (Continued)

At June 30, 2005, the Company has outstanding letters of credit totaling $23,502, including $11,596 and $9,070 of which collateralize amounts recorded in other current liabilities and other liabilities, respectively. The letters of credit expire at varying dates through June 2006.

In addition, the Company has numerous completion and budget guarantees relating to development projects. These guarantees are made with third-party owners in the normal course of business. Each of these guarantees requires the Company to complete construction of the relevant project within a specified time frame and/or within a specified budget, with the Company potentially being liable for costs to complete in excess of such budget. However, the Company generally has guaranteed maximum price contracts with reputable general contractors with respect to projects for which the Company provides these guarantees. These contracts are intended to pass the budget risk to such contractors. Management does not expect to incur any material losses under these guarantees.

From time to time, the Company acts as a general contractor with respect to construction projects. The Company does not consider these activities to be a material part of its business. In connection with these activities, the Company seeks to subcontract construction work for certain projects to reputable subcontractors. Should construction defects arise related to the underlying projects, the Company could potentially be liable to the client for the costs to repair such defects, but the Company would generally look to the subcontractor that performed the work to remedy the defect. Management does not expect to incur material losses with respect to construction defects.

As of June 30, 2005, the Company has made non-refundable earnest money deposits totaling $4,364 in conjunction with contracts to acquire approximately $191,403 of real estate from other entities.

The Company and one of its subsidiaries are 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, pending in the US District Court for the Northern District of Illinois, originally filed on April 2, 2003. The claims asserted by the plaintiffs relate to a sale/leaseback transaction involving a property in Oklahoma City previously owned by the Bank. The suit alleges breach of contract, breach of fiduciary duty, negligent misrepresentation, fraudulent misrepresentation and fraudulent concealment against the Company and/or its subsidiary and alleges that the plaintiffs have been damaged in an unspecified amount in excess of $15,000. The plaintiffs seek to recover actual damages, punitive damages and reasonable attorneys fees. The suit is in the process of discovery, and no trial date has been set. As of the date of this Form 10-Q, the outcome of the suit cannot be predicted with any certainty, and the Company cannot at this time estimate an amount or range of potential loss in the event of an unfavorable outcome. While the Company cannot predict with any certainty the outcome of this matter, the Company currently believes the plaintiffs claims are without merit and is vigorously defending the lawsuit.

From time to time, the Company is involved in other litigation matters that arise in the ordinary course of its business, some of which involve claims for damages which are substantial in amount. The ultimate liability for these matters cannot be determined. However, based on the information currently available, the Company does not believe that the resolution of any such matters to which it is currently a

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13. Commitments and Contingencies (Continued)

party will have a material adverse effect on the Company s results of operations, financial condition or liquidity.

14. Segment Information

Description of Services by Segment

The Global Services segment includes property and facilities management, brokerage and corporate advisory, and project and construction management services delivered to both user and investor clients.

The Development and Investment segment includes development activities performed on behalf of investor and user clients on a fee basis, as well as development activity pursuant to which the Company takes an ownership position. The Development and Investment segment also includes activities related to the Company s operating real estate projects prior to disposition.

Measurement of Segment Profit or Loss and Segment Assets

The Company evaluates performance and allocates resources among its two reportable segments based on income before income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Virtually all of the Company s revenues are from clients located in the United States. For the three and six months ended June 30, 2005, one individual client accounts for $26,802, or 13%, and $50,750, or 13%, respectively, of the Company s consolidated revenues. For the three and six months ended June 30, 2004, the same client accounted for $19,730, or 11%, and $36,224, or 11%, respectively, of the Company s consolidated revenues. Revenues from this client are included primarily in the Company s Global Services segment.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
June 30, 2005
(dollars in thousands, except per share data)
(Unaudited)

14. Segment Information (Continued)

Summarized financial information for reportable segments is as follows:

	For the Three Months Ended June 30, 2005	2004	For the Six Months Ended June 30, 2005	2004
Global Services:				
Total revenues	$ 202,573	$ 169,941	$ 371,789	$ 319,659
Costs and expenses(1)	189,740	162,048	354,989	313,684
Operating income	12,833	7,893	16,800	5,975
Interest and other income	373	218	1,150	689
Income from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	13,206	8,111	17,950	6,664
Minority interest, before income taxes	353	(17)	542	(17)
Income from investments in unconsolidated subsidiaries, before income taxes	3,198			