

TRAMMELL CROW CO
Form 10-Q
November 08, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

Or

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

For the transition period from _____ to _____

Commission file number 1-13531

Trammell Crow Company

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

**2001 Ross Avenue
Suite 3400**

Dallas, Texas

(Address of principal executive offices)

75-2721454

(IRS Employer
Identification No.)

75201

(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 No

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

There were 36,012,111 shares of the registrant's common stock outstanding as of November 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)**

	September 30, 2005 (Unaudited)	December 31, 2004 (Note 1)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 66,020	\$ 163,637
Restricted cash	2,810	9,950
Accounts receivable, net of allowance for doubtful accounts of \$3,318 in 2005 and \$3,144 in 2004	113,584	103,551
Receivables from affiliates	2,301	1,626
Notes and other receivables	5,905	19,726
Deferred income taxes	3,747	4,021
Real estate under development	48,165	10,379
Real estate and other assets held for sale	15,347	40,155
Available for sale securities	995	
Other current assets	26,922	17,854
Total current assets	285,796	370,899
Furniture and equipment, net	19,881	18,649
Deferred income taxes	20,132	22,935
Real estate under development	153,445	58,454
Real estate held for investment	93,468	113,421
Investments in unconsolidated subsidiaries	169,347	74,090
Goodwill, net	75,239	74,357
Receivables from affiliates	6,775	
Available for sale securities	17,425	
Other assets	15,487	16,145
	\$ 856,995	\$ 748,950
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	\$ 26,706	\$ 23,731
Accrued expenses	133,943	146,479
Payables to affiliates	144	40
Income taxes payable	3,405	18,121
Current portion of long term debt	11	6
Current portion of notes payable on real estate	47,082	11,066
Liabilities related to real estate and other assets held for sale	12,569	28,467
Other current liabilities	5,496	12,600
Total current liabilities	229,356	240,510
Long-term debt, less current portion	51,020	8
Notes payable on real estate, less current portion	156,524	112,699
Other liabilities	13,284	10,027
Total liabilities	450,184	363,244
Minority interest	44,165	44,756
Stockholders' equity		
Preferred stock; \$0.01 par value; 30,000,000 shares authorized; none issued or outstanding		
Common stock; \$0.01 par value; 100,000,000 shares authorized; 37,903,058 shares issued and 36,013,850 shares outstanding in 2005 and 37,902,998 shares issued and 35,605,007 shares outstanding in 2004	379	379
Paid in capital	201,817	196,314
Retained earnings	206,788	190,252
Accumulated other comprehensive income	2,603	2,043
Less:		
Treasury stock	(33,182)	(36,921)
Unearned stock compensation, net	(15,759)	(11,117)
Total stockholders' equity	362,646	340,950
	\$ 856,995	\$ 748,950

See accompanying notes.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
REVENUES				
<i>User Services:</i>				
Facilities management	\$ 59,076	\$ 52,633	\$ 173,604	\$ 153,945
Corporate advisory services	49,498	34,142	114,287	90,420
Project management services	28,216	23,268	85,503	60,905
	136,790	110,043	373,394	305,270
<i>Investor Services:</i>				
Property management	34,246	34,330	102,801	103,654
Brokerage	35,296	25,917	96,752	76,776
Construction management	3,207	2,926	8,381	6,987
	72,749	63,173	207,934	187,417
Development and construction	10,005	8,106	26,553	24,413
	219,544	181,322	607,881	517,100
Gain on disposition of real estate	7,285	7,253	9,759	11,584
TOTAL REVENUES	226,829	188,575	617,640	528,684
COSTS AND EXPENSES				
Salaries, wages and benefits	140,801	119,970	399,242	348,915
Commissions	41,883	28,623	98,839	76,618
General and administrative	36,323	31,002	102,465	89,640
Depreciation and amortization	2,551	2,718	7,513	8,683
Interest	1,579	1,156	4,015	3,005
TOTAL EXPENSES	223,137	183,469	612,074	526,861
Operating income	3,692	5,106	5,566	1,823
Interest and other income	672	763	2,074	2,124
Income from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries	4,364	5,869	7,640	3,947
Income tax expense	(1,600)	(2,422)	(2,782)	(1,595)
Minority interest, net of income tax (expense) benefit of \$1,078, \$(618), \$(756) and \$(148)	(1,930)	842	1,321	217
Income from investments in unconsolidated subsidiaries, net of income tax expense of \$(896), \$(629), \$(3,472), and \$(5,664)	1,497	1,668	6,064	8,351
Income from continuing operations	2,331	5,957	12,243	10,920
Income (loss) from discontinued operations, net of income tax (expense) benefit of \$(6,979), \$96, \$(7,208), and \$(168)	12,186	(103)	12,591	247
Net income	\$ 14,517	\$ 5,854	\$ 24,834	\$ 11,167
Income per share from continuing operations:				
Basic	\$ 0.07	\$ 0.16	\$ 0.37	\$ 0.30
Diluted	\$ 0.07	\$ 0.15	\$ 0.33	\$ 0.29
Income (loss) per share from discontinued operations, net of income taxes:				
Basic	\$ 0.36	\$ 0.00	\$ 0.37	\$ 0.01
Diluted	\$ 0.33	\$ 0.00	\$ 0.35	\$ 0.01
Net income per share:				
Basic	\$ 0.43	\$ 0.16	\$ 0.74	\$ 0.31
Diluted	\$ 0.40	\$ 0.15	\$ 0.68	\$ 0.30
Weighted average common shares outstanding:				
Basic	33,873,952	35,708,289	33,663,140	35,584,361
Diluted	36,679,610	37,911,301	36,292,969	37,588,366

See accompanying notes.

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

	Common Shares		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					24,834				24,834
Issuance of restricted stock		(431,589)		2,677			7,603	(10,280)	
Forfeiture of restricted stock		179,266					(3,235)	389	(2,846)
Amortization of unearned stock compensation				1,585				5,249	6,834
Issuance of common stock	60	(1,126,602)		1,241	(8,298)		19,421		12,364
Stock repurchase		970,142					(20,050)		(20,050)
Foreign currency translation adjustment, net of tax						430			430
Unrealized holding gains/(losses) on available for sale securities, net of tax						130			130
Balance at September 30, 2005	37,903,058	1,889,208	\$ 379	\$ 201,817	\$ 206,788	\$ 2,603	\$ (33,182)	\$ (15,759)	\$ 362,646

See accompanying notes.

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

	For the Nine Months Ended September 30,	
	2005	2004
Operating activities		
Cash flows from earnings:		
Net Income	\$ 24,834	\$ 11,167
Reconciliation of net income to net cash provided by earnings:		
Depreciation and amortization	7,975	8,897
Amortization of employment contracts and unearned stock compensation	7,232	5,928
Amortization of contract intangibles	1,540	1,631
Bad debt expense	506	562
Provision for losses and writedowns for impairment on real estate	23	672
Gain on disposition of real estate held for investment	(9,866)	(741)
Minority interest	(2,077)	(365)
Deferred income tax provision	2,760	317
Income from investments in unconsolidated subsidiaries	(9,536)	(14,015)
Distributions of earnings from unconsolidated subsidiaries	5,325	1,864
Net cash provided by earnings	28,716	15,917
Changes in operating assets and liabilities:		
Restricted cash	7,140	1,310
Accounts receivable	(10,528)	5,439
Receivables from affiliates	(7,450)	(5,002)
Notes receivable and other assets	1,928	4,831
Real estate held for sale and under development	(79,137)	(46,833)
Notes payable on real estate held for sale and under development	45,421	33,965
Accounts payable and accrued expenses	(10,280)	1,383
Payables to affiliates	104	(102)
Income taxes payable	(14,716)	(5,332)
Other liabilities	(2,436)	1,299
Net cash flows from changes in working capital	(69,954)	(9,042)
Net cash provided by (used in) operating activities	(41,238)	6,875
Investing activities		
Expenditures for furniture and equipment	(7,262)	(4,545)
Purchase of available for sale securities, net of sales proceeds	(18,216)	
Additions to real estate held for investment	(32,256)	(65,945)
Net proceeds from disposition of real estate held for investment	32,777	18,438
Investments in unconsolidated subsidiaries	(102,494)	(5,754)
Distributions from unconsolidated subsidiaries	10,129	11,214
Net cash used in investing activities	(117,322)	(46,592)
Financing activities		
Principal payments on long-term debt and capital lease obligations	(116,376)	(115,360)
Proceeds from long-term debt	167,390	102,539
Contributions from minority interest	14,479	14,583
Distributions to minority interest	(12,993)	(5,304)
Proceeds from notes payable on real estate held for investment	32,175	59,660
Payments on notes payable on real estate held for investment	(16,046)	(29,756)
Proceeds from exercise of stock options	9,355	575
Proceeds from issuance of common stock	3,009	2,915
Purchase of common stock	(20,050)	
Net cash provided by financing activities	60,943	29,852
Net decrease in cash and cash equivalents	(97,617)	(9,865)
Cash and cash equivalents, beginning of period	163,637	105,616
Cash and cash equivalents, end of period	\$ 66,020	\$ 95,751

See accompanying notes.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	\$ 14,517	\$ 5,854	\$ 24,834	\$ 11,167
Other comprehensive income:				
Foreign currency translation adjustments, net of tax (expense) benefit of \$91 and \$(243) in the three and nine months ended September 30, 2005, respectively, and \$(186) and \$(177) in the three and nine months ended September 30, 2004, respectively	(161) 249	430	223
Unrealized holding gains/(losses) on available for sale securities, net of tax (expense) benefit of \$6 and \$(74) in the three and nine months ended September 30, 2005, respectively	35		130	
Comprehensive income	\$ 14,391	\$ 6,103	\$ 25,394	\$ 11,390

See accompanying notes.

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TRAMMELL CROW COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 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 (often in 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 six months ended June 30, 2005, and the three and nine months ended September 30, 2004, have been reclassified to conform to the presentation at and for the three months ended September 30, 2005 (see Notes 9 and 11). As a result, certain balances differ from the amounts reported in previously filed documents. Certain distributions from unconsolidated subsidiaries have been reclassified in the Company's consolidated statements of cash flows. As a result, cash flows from operating activities and investing activities differ from previously filed documents. These reclassifications had no impact on the Company's consolidated balance sheets, statements of operations or earnings per share amounts.

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 marketable debt and equity securities in accordance with FASB Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt*

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

1. General (Continued)

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 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 September 30, 2005 are classified as available for sale.

In accordance with FAS 115, the available for sale 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 income taxes, 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 reflect the dilutive effect of common stock equivalents, including unvested restricted stock and options to purchase shares of common stock. Diluted weighted-average common shares outstanding include the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Basic weighted-average common shares outstanding	33,873,952	35,708,289	33,663,140	35,584,361
Diluted effect of common stock equivalents	2,805,658	2,203,012	2,629,829	2,004,005
Diluted weighted-average common shares outstanding	36,679,610	37,911,301	36,292,969	37,588,366

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

1. General (Continued)

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 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 September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income, as reported	\$ 14,517	\$ 5,854	\$ 24,834	\$ 11,167
Add: Stock-based employee compensation expense included in net income, net of related tax effects	1,171	1,172		