TRAMMELL CROW CO Form 10-Q November 08, 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 September 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

(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 x No o

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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 x No o

There were 36,012,111 shares of the registrant s common stock outstanding as of November 1, 2005.

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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)

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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 Fotal stockholders equity 362,646 340,950	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
Accumulated other comprehensive income2,6032,043Less:Treasury stock(33,182)(36,921Unearned stock compensation, net(15,759)(11,117Fotal stockholders equity362,646340,950	Paid in capital	201,817)-
Treasury stock (33,182) (36,921) Unearned stock compensation, net (15,759) (11,117) Yotal stockholders equity 362,646 340,950	Retained earnings	206,788	190,252
Unearned stock compensation, net(15,759)(11,117Yotal stockholders362,646340,950	Accumulated other comprehensive income	2,603	2,043
Total stockholdersequity362,646340,950	Less: Treasury stock	(33,182)	(36,921)
Total stockholdersequity362,646340,950	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)

		ed Septem	Three Months September 30, 2004		For the Nine Mo Ended Septembo 2005					
REVENUES										
User Services:										
Facilities management	\$	59,076		\$	52,633	\$	173,604		\$	153,945
Corporate advisory services	49,4	.98		34,1	42	114	1,287		90,4	20
Project management services	28,2	16		23,2	68	85,	503		60,9	05
	136,	,790		110,	043	373	3,394		305,	270
Investor Services:										
Property management	34,2	46		34,3	30	102	2,801		103,	654
Brokerage	35,2	.96		25,9	17	96,	752		76,7	
Construction management	3,20	07		2,92	6	8,3	81		6,98	7
	72,7	49		63,1	73	207	7,934		187,	417
Development and construction	10,0	05		8,10	6	26,	553		24,4	13
	219,	544		181,	322	603	7,881		517,	100
Gain on disposition of real estate	7,28	5		7,25	3	9,7	59		11,5	84
TOTAL REVENUES	226,	829		188,	575	617	7,640		528,	684
COSTS AND EXPENSES										
Salaries, wages and benefits	140,	801		119,	970	399	9,242		348,	915
Commissions	41,8	83		28,6	23	98,	839		76,6	18
General and administrative	36,3	23		31,0	02	102	2,465		89,6	40
Depreciation and amortization	2,55	1		2,71	8	7,5	13		8,68	3
Interest	1,57	9		1,15	6	4,0	15	3,005		5
TOTAL EXPENSES	223,	137		183,	469	612	2,074		526,	861
Operating income	3,69	2		5,106		5,566		1,823		3
Interest and other income	672			763		2,0	74	2,124		4
Income from continuing operations before income taxes, minority interest										
and income from investments in unconsolidated subsidiaries	4,36	4		5,86	9	7,6	40		3,94	7
Income tax expense	(1,6	00)	(2,42	22) (2,782)	(1,59	95
Minority interest, net of income tax (expense) benefit of \$1,078, \$(618), \$(756) and \$(148)	(1,9	30)	842		1,3	21		217	
Income from investments in unconsolidated subsidiaries, net of income										
tax expense of \$(896), \$(629), \$(3,472), and \$(5,664)	1,49	7		1,66	8	6,0	64		8,35	1
Income from continuing operations	2,33	1		5,95	7	12,	243		10,9	20
Income (loss) from discontinued operations, net of income tax										
(expense) benefit of \$(6,979), \$96, \$(7,208), and \$(168)	12,1	86		(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:										
Weighted average common shares outstanding: Basic	33,8	73,952		35,7	08,289	33,	663,140		35,5	84,361

See accompanying notes.

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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)

	a a		Common			Accumulated Other		-	Jnearned		
	Common Share Issued	es Treasury	Stock Par Value	Paid-In Capital	Retained Earnings	Comprehensiv Income	Stock		tock Compensation	Total	
Balance at January 1, 2004	37,783,595	921,353	\$ 377	•	\$ 151,560		\$ (8,363)	\$ (9,387)	\$ 327,6	29
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	2)	\$ (15,759)	\$ 362,6	46

See accompanying notes.

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

(Unaudited)

	For the Nine Months Ended Septembe 2005	r 30,	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)

(Unaudited)

	For the Three Mont Ended Sept 2005		er 30 200	/	Nii	r the 1e Months ded Septeml)5	ber 30, 200	4
Net income	\$ 14,517	7	\$	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)	24	9	43	0	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				13	0		
Comprehensive income	\$ 14,391	1	\$	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

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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, 2005	2004	For the Nine Months Ended September 30, 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 M Ended Septeml		For the Nine M Ended Septem	
	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		