

TRAMMELL CROW CO
Form 10-Q
August 09, 2006

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 **June 30, 2006**

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

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to such filing requirements for the past 90 days. Yes No

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

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

There were 36,066,775 shares of the registrant's common stock outstanding as of July 31, 2006.

**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, 2006 (Unaudited) | December 31, 2005 (Note 1) |
|--|---------------------------------|----------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 37,586 | \$ 76,919 |
| Restricted cash | 3,406 | 1,416 |
| Accounts receivable, net of allowance for doubtful accounts of \$2,720 in 2006 and \$3,235 in 2005 | 115,875 | 127,784 |
| Receivables from affiliates | 2,236 | 2,146 |
| Notes and other receivables | 25,359 | 16,303 |
| Deferred income taxes | 3,860 | 3,935 |
| Real estate under development | 196,894 | 120,697 |
| Real estate and other assets held for sale | 19,589 | 39,543 |
| Marketable securities | 1,961 | 542 |
| Other current assets | 36,200 | 27,393 |
| Total current assets | 442,966 | 416,678 |
| Furniture and equipment, net | 19,885 | 19,787 |
| Deferred income taxes | 13,631 | 16,270 |
| Real estate under development | 117,486 | 108,849 |
| Real estate held for investment | 112,010 | 88,787 |
| Investments in unconsolidated subsidiaries | 190,465 | 175,411 |
| Goodwill, net | 75,245 | 75,239 |
| Receivables from affiliates | 7,021 | 7,458 |
| Marketable securities | 17,388 | 18,089 |
| Other assets | 27,224 | 21,599 |
| | \$ 1,023,321 | \$ 948,167 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 33,387 | \$ 31,698 |
| Accrued expenses | 121,254 | 155,597 |
| Income taxes payable | 2,798 | 16,313 |
| Current portion of long-term debt | 2,664 | 1,302 |
| Current portion of notes payable on real estate | 200,099 | 124,682 |
| Liabilities related to real estate and other assets held for sale | 12,506 | 26,930 |
| Other current liabilities | 6,752 | 5,948 |
| Total current liabilities | 379,460 | 362,470 |
| Long-term debt, less current portion | 85,041 | 35,034 |
| Notes payable on real estate, less current portion | 122,968 | 106,216 |
| Other liabilities | 15,285 | 13,448 |
| Total liabilities | 602,754 | 517,168 |
| Minority interest | 35,491 | 29,528 |
| 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 35,994,810 shares outstanding in 2006 and 37,903,058 shares issued and 36,040,317 shares outstanding in 2005 | 379 | 379 |
| Paid-in capital | 182,821 | 205,084 |
| Retained earnings | 250,241 | 240,887 |
| Accumulated other comprehensive income | 4,161 | 1,713 |
| Less: Treasury stock | (52,526) | (32,776) |
| Unearned stock compensation, net | | (13,816) |
| Total stockholders' equity | 385,076 | 401,471 |
| | \$ 1,023,321 | \$ 948,167 |

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, | | For the Six Months Ended June 30, | |
|---|--|------------|--------------------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| REVENUES | | | | |
| <i>User Services:</i> | | | | |
| Facilities management | \$ 66,166 | \$ 59,391 | \$ 131,200 | \$ 114,528 |
| Corporate advisory services | 51,824 | 40,116 | 97,657 | 64,789 |
| Project management services | 33,783 | 31,963 | 63,462 | 57,287 |
| | 151,773 | 131,470 | 292,319 | 236,604 |
| <i>Investor Services:</i> | | | | |
| Property management | 32,939 | 34,468 | 66,791 | 68,555 |
| Brokerage | 40,751 | 33,676 | 71,511 | 61,456 |
| Construction management | 2,998 | 2,959 | 6,010 | 5,174 |
| | 76,688 | 71,103 | 144,312 | 135,185 |
| Development and construction | 11,524 | 8,510 | 20,374 | 16,347 |
| | 239,985 | 211,083 | 457,005 | 388,136 |
| Gain on disposition of real estate | 2,168 | 906 | 3,238 | 2,474 |
| TOTAL REVENUES | 242,153 | 211,989 | 460,243 | 390,610 |
| COSTS AND EXPENSES | | | | |
| Salaries, wages and benefits | 145,261 | 132,730 | 291,351 | 258,441 |
| Commissions | 42,069 | 34,298 | 76,208 | 56,956 |
| General and administrative | 43,292 | 35,963 | 80,393 | 65,987 |
| Depreciation and amortization | 2,951 | 2,526 | 5,651 | 4,925 |
| Interest | 2,580 | 1,669 | 4,078 | 2,349 |
| TOTAL EXPENSES | 236,153 | 207,186 | 457,681 | 388,658 |
| Operating income | 6,000 | 4,803 | 2,562 | 1,952 |
| Interest and other income | 1,081 | 481 | 1,950 | 1,402 |
| Income from continuing operations before income taxes, minority interest and income from investments in unconsolidated subsidiaries | 7,081 | 5,284 | 4,512 | 3,354 |
| Income tax expense | (2,782) | (1,947) | (1,780) | (1,210) |
| Minority interest, net of income tax expense of \$233, \$607, \$86 and \$1,834 | 363 | 1,263 | 132 | 3,251 |
| Income from investments in unconsolidated subsidiaries, net of income tax expense of \$2,571, \$1,599, \$3,955 and \$2,576 | 3,939 | 2,984 | 6,106 | 4,567 |
| Income from continuing operations | 8,601 | 7,584 | 8,970 | 9,962 |
| Income from discontinued operations, net of income tax expense of \$137, \$401, \$1,610 and \$201 | 181 | 680 | 2,486 | 355 |
| Income before cumulative effect of a change in accounting principle | 8,782 | 8,264 | 11,456 | 10,317 |
| Cumulative effect of a change in accounting principle, net of income tax expense of \$646 | | | 1,011 | |
| Net income | \$ 8,782 | \$ 8,264 | \$ 12,467 | \$ 10,317 |
| Basic earnings per share: | | | | |
| Income from continuing operations | \$ 0.24 | \$ 0.23 | \$ 0.26 | \$ 0.30 |
| Income from discontinued operations | 0.01 | 0.02 | 0.07 | 0.01 |
| Cumulative effect of a change in accounting principle | 0.00 | 0.00 | 0.03 | 0.00 |
| Net income | \$ 0.25 | \$ 0.25 | \$ 0.36 | \$ 0.31 |
| Basic weighted-average common shares outstanding: | 34,519,683 | 33,422,946 | 34,443,884 | 33,555,988 |
| Diluted earnings per share: | | | | |
| Income from continuing operations | \$ 0.24 | \$ 0.21 | \$ 0.24 | \$ 0.28 |
| Income from discontinued operations | 0.00 | 0.02 | 0.07 | 0.01 |
| Cumulative effect of a change in accounting principle | 0.00 | 0.00 | 0.03 | 0.00 |
| Net income | \$ 0.24 | \$ 0.23 | \$ 0.34 | \$ 0.29 |
| Diluted weighted-average common shares outstanding: | 36,753,346 | 36,053,250 | 36,829,966 | 36,097,902 |

See accompanying notes.

TRAMMELL CROW COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
Six Months Ended June 30, 2006 (Unaudited) and Year Ended December 31, 2005 (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, 2005 | Issued 37,902,998 | Treasury 2,297,991 | \$ 379 | \$ 196,314 | \$ 190,252 | \$ 2,043 | \$ (36,921) | \$ (11,117) | \$ 340,950 |
| Net income | | | | | 59,407 | | | | 59,407 |
| Stock-based compensation | 60 | (1,405,392) | | 8,770 | (8,772) | | 24,195 | (2,699) | 21,494 |
| Stock repurchase | | 970,142 | | | | | (20,050) | | (20,050) |
| Foreign currency translation adjustment, net of tax | | | | | | (475) | | | (475) |
| Net unrealized holding gains/(losses) on available for sale securities, net of tax | | | | | | 145 | | | 145 |
| Balance at December 31, 2005 | 37,903,058 | 1,862,741 | 379 | 205,084 | 240,887 | 1,713 | (32,776) | (13,816) | 401,471 |
| Net income | | | | | 12,467 | | | | 12,467 |
| Cumulative effect of a change in accounting principle | | | | (15,473) | | | | 13,816 | (1,657) |
| Stock-based compensation | | (1,441,993) | | (6,790) | (3,113) | | 30,370 | | 20,467 |
| Stock repurchase | | 1,487,500 | | | | | (50,120) | | (50,120) |
| Foreign currency translation adjustment, net of tax | | | | | | 2,578 | | | 2,578 |
| Net unrealized holding gains/(losses) on available for sale securities, net of tax | | | | | | (130) | | | (130) |
| Balance at June 30, 2006 | 37,903,058 | 1,908,248 | \$ 379 | \$ 182,821 | \$ 250,241 | \$ 4,161 | \$ (52,526) | \$ | \$ 385,076 |

See accompanying notes.

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

**For the
Six Months
Ended June 30,
2006 2005**

| | 2006 | 2005 |
|--|-----------|-----------|
| Operating activities | | |
| Cash flows from earnings: | | |
| Net Income | \$ 12,467 | \$ 10,317 |
| Reconciliation of net income to net cash provided by earnings: | | |
| Depreciation and amortization | 5,651 | 5,366 |
| Stock-based compensation expense | 4,355 | 3,172 |
| Cumulative effect of a change in accounting principle | (1,657) |) |
| Amortization of employment contracts | 1,610 | 1,330 |
| Amortization of contract intangibles | 549 | 1,172 |
| Bad debt expense | 212 | 67 |
| Provision for real estate impairment | 425 | |
| Gain on disposition of real estate held for investment | (93) | (44) |
| Minority interest | 608 | (5,085) |
| Deferred income tax provision | 1,160 | 1,004 |
| Income from investments in unconsolidated subsidiaries | (10,061) | (7,143) |
| Distributions of earnings from unconsolidated subsidiaries | 4,550 | 4,006 |
| Net cash provided by earnings | 19,776 | 14,162 |
| Changes in operating assets and liabilities: | | |
| Restricted cash | (1,990) | 3,764 |
| Accounts receivable | 14,934 | 6,117 |
| Receivables from affiliates | 347 | (6,023) |
| Notes receivable and other assets | (34,179) | (13,201) |
| Marketable securities | (600) |) |
| Real estate held for sale and under development | (59,670) | (53,019) |
| Notes payable on real estate held for sale | 42,108 | 38,008 |
| Accounts payable and accrued expenses | (31,542) | (36,643) |
| Income taxes payable | (14,254) | (19,451) |
| Other liabilities | 2,523 | 2,033 |
| Net cash flows from changes in working capital | (82,323) | (78,415) |
| Net cash used in operating activities | (62,547) | (64,253) |
| Investing activities | | |
| Expenditures for furniture and equipment | (4,102) | (5,164) |
| Proceeds from sales and maturities of marketable securities | 3,754 | 1,516 |
| Payment for purchase of marketable securities | (4,085) | (19,311) |
| Additions to real estate held for investment | (15,331) | (21,047) |
| Net proceeds from disposition of real estate held for investment | 529 | 44 |
| Investments in unconsolidated subsidiaries | (10,330) | (100,255) |
| Distributions from unconsolidated subsidiaries | 4,960 | 9,971 |
| Net cash used in investing activities | (24,605) | (134,246) |
| Financing activities | | |
| Principal payments on long-term debt and capital lease obligations | (92,952) | (78,332) |
| Proceeds from long-term debt | 144,321 | 153,693 |
| Contributions from minority interest | 4,306 | 9,053 |
| Distributions to minority interest | (2,729) | (11,581) |
| Proceeds from notes payable on real estate held for investment | 23,999 | 24,090 |
| Payments on notes payable on real estate held for investment | (112) | (3,490) |
| Proceeds from exercise of stock options | 17,828 | 5,213 |
| Excess tax benefits from stock-based compensation | 1,728 | 812 |
| Proceeds from issuance of common stock | 1,550 | 1,503 |
| Purchase of common stock | (50,120) | (20,050) |
| Net cash provided by financing activities | 47,819 | 80,911 |
| Net decrease in cash and cash equivalents | (39,333) | (117,588) |
| Cash and cash equivalents, beginning of period | 76,919 | 163,637 |
| Cash and cash equivalents, end of period | \$ | |