

CRAWFORD & CO
Form 10-Q
August 08, 2011
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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q
R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
for the quarterly period ended June 30, 2011
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 1-10356

CRAWFORD & COMPANY
(Exact name of Registrant as specified in its charter)
Georgia 58-0506554
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1001 Summit Boulevard
Atlanta, Georgia 30319
(Address of principal executive offices) (Zip Code)
(404) 300-1000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of each of the Registrant's classes of common stock as of July 29, 2011 was as follows:

Class A Common Stock, \$1.00 par value: 29,063,480

Class B Common Stock, \$1.00 par value: 24,697,172

CRAWFORD & COMPANY
 Quarterly Report on Form 10-Q
 Quarter Ended June 30, 2011

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Part 1 — Financial Information

Item 1. Financial Statements

CRAWFORD & COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In thousands, except per share amounts)

	Three Months Ended June 30,	
	2011	2010
Revenues:		
Revenues before reimbursements	\$291,713	\$238,151
Reimbursements	22,369	17,835
Total Revenues	314,082	255,986
Costs and Expenses:		
Costs of services provided, before reimbursements	210,773	176,424
Reimbursements	22,369	17,835
Total costs of services	233,142	194,259
Selling, general, and administrative expenses	57,163	50,411
Corporate interest expense, net of interest income of \$192 and \$193, respectively	4,118	3,672
Restructuring and other costs	—	1,987
Goodwill impairment charge	—	7,303
Total Costs and Expenses	294,423	257,632
Income (Loss) Before Income Taxes	19,659	(1,646)
Provision for Income Taxes	6,005	865
Net Income (Loss)	13,654	(2,511)
Less: Net Income Attributable to Noncontrolling Interests	185	16
Net Income (Loss) Attributable to Shareholders of Crawford & Company	\$13,469	\$(2,527)
Earnings (Loss) Per Share:		
Basic	\$0.25	\$(0.05)
Diluted	\$0.25	\$(0.05)
Weighted-Average Shares Used to Compute:		
Basic Earnings (Loss) Per Share	53,485	52,619
Diluted Earnings (Loss) Per Share	53,940	52,619

Cash Dividends Per Share:		
Class A and Class B Common Stock	\$0.02	\$—

(See accompanying notes to condensed consolidated financial statements)

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In thousands, except per share amounts)

	Six Months Ended June 30,	
	2011	2010
Revenues:		
Revenues before reimbursements	\$576,751	\$474,417
Reimbursements	41,439	33,622
Total Revenues	618,190	508,039
Costs and Expenses:		
Costs of services provided, before reimbursements	417,715	352,970
Reimbursements	41,439	33,622
Total costs of services	459,154	386,592
Selling, general, and administrative expenses	113,159	99,378
Corporate interest expense, net of interest income of \$411 and \$296, respectively	8,254	7,809
Restructuring and other costs	—	4,650
Goodwill impairment charge	—	7,303
Total Costs and Expenses	580,567	505,732
Income Before Income Taxes	37,623	2,307
Provision for Income Taxes	12,042	1,758
Net Income	25,581	549
Less: Net (Loss) Income Attributable to Noncontrolling Interests	(35	) 22
Net Income Attributable to Shareholders of Crawford & Company	\$25,616	\$527
Earnings Per Share:		
Basic	\$0.48	\$0.01
Diluted	\$0.48	\$0.01
Weighted-Average Shares Used to Compute:		
Basic Earnings Per Share	53,284	52,504
Diluted Earnings Per Share	53,764	52,949
Cash Dividends Per Share:		
Class A and Class B Common Stock	\$0.04	\$—

(See accompanying notes to condensed consolidated financial statements)

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CONDENSED CONSOLIDATED BALANCE SHEETSUnaudited
(In thousands)

	June 30, 2011	* December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$37,206	\$93,540
Accounts receivable, less allowance for doubtful accounts of \$14,597 and \$10,516, respectively	185,026	142,521
Unbilled revenues, at estimated billable amounts	136,726	122,933
Prepaid expenses and other current assets	21,363	20,411
Total Current Assets	380,321	379,405
Property and Equipment:		
Property and equipment	155,994	149,444
Less accumulated depreciation	(111,944)	(106,073)
Net Property and Equipment	44,050	43,371
Other Assets:		
Goodwill	129,872	125,764
Intangible assets arising from business acquisitions, net	97,180	97,881
Capitalized software costs, net	56,056	55,204
Deferred income tax assets	90,022	91,930
Other noncurrent assets	25,962	27,119
Total Other Assets	399,092	397,898
TOTAL ASSETS	\$823,463	\$820,674

* derived from the audited Consolidated Balance Sheet
(See accompanying notes to condensed consolidated financial statements)

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CONDENSED CONSOLIDATED BALANCE SHEETS — CONTINUED

Unaudited

(In thousands except par value amounts)

	June 30, 2011	* December 31, 2010
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities:		
Short-term borrowings	\$484	\$—
Accounts payable	42,958	53,517
Accrued compensation and related costs	83,683	90,590
Self-insured risks	16,943	15,094
Income taxes payable	8,976	2,558
Deferred income taxes	17,212	17,146
Deferred rent	15,292	15,750
Other accrued liabilities	36,660	31,097
Deferred revenues	51,605	48,198
Mandatory contributions due to pension plan	4,200	20,000
Current installments of long-term debt and capital leases	2,942	2,891
Total Current Liabilities	280,955	296,841
Noncurrent Liabilities:		
Long-term debt and capital leases, less current installments	217,589	220,437
Deferred revenues	29,098	30,048
Self-insured risks	13,491	18,274
Accrued pension liabilities, less current mandatory contributions	134,845	145,030
Other noncurrent liabilities	15,906	14,813
Total Noncurrent Liabilities	410,929	428,602
Shareholders' Investment:		
Class A common stock, \$1.00 par value; 50,000 shares authorized; 28,795 and 28,002 shares issued and outstanding, respectively	28,795	28,002
Class B common stock, \$1.00 par value; 50,000 shares authorized; 24,697 shares issued and outstanding	24,697	24,697
Additional paid-in capital	31,419	32,348
Retained earnings	192,268	168,791
Accumulated other comprehensive loss	(150,862)	(164,322)
Shareholders' Investment Attributable to Shareholders of Crawford & Company	126,317	89,516
Noncontrolling interests	5,262	5,715
Total Shareholders' Investment	131,579	95,231
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$823,463	\$820,674

* derived from the audited Consolidated Balance Sheet

(See accompanying notes to condensed consolidated financial statements)

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSUnaudited
(In thousands)

	Six Months Ended June 30,	
	2011	2010
Cash Flows From Operating Activities:		
Net income	\$25,581	\$549
Reconciliation of net income to net cash used in operating activities:		
Depreciation and amortization	15,856	15,155
Goodwill impairment charge	—	7,303
Stock-based compensation	1,483	1,436
Loss on disposals of property and equipment, net	4	137
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable, net	(33,696	) (12,753
Unbilled revenues, net	(7,564	) (12,600
Accrued or prepaid income taxes	5,604	(837
Accounts payable and accrued liabilities	(17,780	) (6,617
Deferred revenues	1,996	(4,826
Accrued retirement costs	(22,985	) (14,311
Prepaid expenses and other operating activities	(1,705	) (2,268
Net cash used in operating activities	(33,206	) (29,632
Cash Flows From Investing Activities:		
Acquisitions of property and equipment	(6,175	) (4,973
Proceeds from disposals of property and equipment	40	31
Capitalization of computer software costs	(5,766	) (7,249
Payments for business acquisitions, net of cash acquired	(6,874) —
Net cash used in investing activities	(18,775	) (12,191
Cash Flows From Financing Activities:		
Cash dividends paid	(2,139) —
Shares used to settle withholding taxes under stock-based compensation plans	(1,645	) (703
Increases in short-term borrowings	15,268	22,108
Payments on short-term borrowings	(14,144	) (2,688
Payments on long-term debt and capital lease obligations	(3,422	) (7,053
Other financing activities	20	(39
Net cash (used in) provided by financing activities	(6,062	) 11,625
Effects of exchange rate changes on cash and cash equivalents	1,709	(1,922
Decrease in cash and cash equivalents	(56,334	) (32,120
Cash and cash equivalents at beginning of year	93,540	70,354
Cash and cash equivalents at end of period	\$37,206	\$38,234

(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT,
NONCONTROLLING INTERESTS, AND COMPREHENSIVE INCOME (LOSS)

Unaudited

(In thousands)

2011	Common Stock			Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Shareholders' Investment Accumulated Attributable to Shareholders of Crawford & Company	Noncontrolling Interests	Total Shareholders' Investment
	Class A Non-Voting	Class B Voting							
Balance at January 1, 2011	\$28,002	\$24,697	\$32,348	\$168,791	\$ (164,322)	\$89,516	\$ 5,715	\$ 95,231	
Comprehensive income (loss) — Note 4	—	—	—	12,147	2,717	14,864	(653)	14,211	
Cash dividends paid	—	—	—	(1,069)	—	(1,069)	—	(1,069)	
Stock-based compensation	—	—	370	—	—	370	—	370	
Common stock activity, net	780	—	(2,432)	—	—	(1,652)	—	(1,652)	
Balance at March 31, 2011	28,782	24,697	30,286	179,869	(161,605)	102,029	5,062	107,091	
Comprehensive income — Note 4	—	—	—	13,469	10,743	24,212	200	24,412	
Cash dividends paid	—	—	—	(1,070)	—	(1,070)	—	(1,070)	
Stock-based compensation	—	—	1,113	—	—	1,113	—	1,113	
Common stock activity, net	13	—	20	—	—	33	—	33	
Balance at June 30, 2011	\$28,795	\$24,697	\$31,419	\$192,268	\$ (150,862)	\$126,317	\$ 5,262	\$ 131,579	
2010	Common Stock			Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Shareholders' Investment Accumulated Attributable to Shareholders of	Noncontrolling Interests	Total Shareholders' Investment
	Class A Non-Voting	Class B Voting							

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	Crawford & Company								
Balance at January 1, 2010	\$27,355	\$24,697	\$29,570	\$140,463	\$ (165,403)	\$56,682	\$ 4,604	\$ 61,286	
Comprehensive income (loss) — Note 4	—	—	—	3,054	(286)	2,768	(3)	2,765	
Stock-based compensation	—	—	777	—	—	777	—	777	
Dividends paid to noncontrolling interests	—	—	—	—	—	—	(39)	(39)	
Common stock activity, net	412	—	(1,115)	—	—	(703)	—	(703)	
Balance at March 31, 2010	27,767	24,697	29,232	143,517	(165,689)	59,524	4,562	64,086	
Comprehensive (loss) income — Note 4	—	—	—	(2,527)	(1,650)	(4,177)	276	(3,901)	
Stock-based compensation	—	—	659	—	—	659	—	659	
Common stock activity, net	—	—	—	—	—	—	—	—	
Balance at June 30, 2010	\$27,767	\$24,697	\$29,891	\$140,990	\$ (167,339)	\$56,006	\$ 4,838	\$ 60,844	

(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Based in Atlanta, Georgia, Crawford & Company (the “Company”) is the world's largest independent provider of claims management solutions to the risk management and insurance industry as well as self-insured entities, with an expansive global network serving clients in more than 70 countries. The Crawford System of Claims SolutionsSM offers comprehensive, integrated claims services, business process outsourcing and consulting services for major product lines including property and casualty claims management, workers' compensation claims and medical management, and legal settlement administration. Shares of the Company's two classes of common stock are traded on the New York Stock Exchange under the symbols CRDA and CRDB, respectively. Other than voting rights, the Company's two classes of stock have essentially identical rights, except that the Board of Directors may pay greater or equal (but not lesser) cash dividends on the Class A Common Stock than on the Class B Common Stock. In addition, with respect to mergers or similar transactions, holders of Class A Common Stock must receive the same type and amount of consideration as holders of Class B Common Stock, unless approved by the holders of 75% of the Class A Common Stock, voting as a class. The Company's website is www.crawfordandcompany.com. The information contained on the Company's website is not a part of, and is not incorporated by reference into, this report.

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the “SEC”). Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. The financial statements of the Company's international subsidiaries, other than those in Canada and the Caribbean, are included in the Company's condensed consolidated financial statements on a two-month delayed basis (fiscal year-end of October 31) as permitted by GAAP in order to provide sufficient time for accumulation of their results.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. There have been no material changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010. Operating results for the three months and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 or for other future periods.

In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation have been included. Certain prior period amounts have been reclassified to conform to the current presentation. Significant intercompany transactions have been eliminated in consolidation