

Edgar Filing: CRAWFORD & CO - Form 10-Q

CRAWFORD & CO
Form 10-Q
August 09, 2006

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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 1-10356

CRAWFORD & COMPANY
(Exact name of Registrant as specified in its charter)

GEORGIA
(State or other jurisdiction of
incorporation or organization)

58-0506554
(I.R.S. Employer
Identification No.)

5620 GLENRIDGE DRIVE, N.E.
ATLANTA, GEORGIA
(Address of principal executive offices)

30342
(Zip Code)

(404) 256-0830
(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 X 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

Edgar Filing: CRAWFORD & CO - Form 10-Q

Part II. Other Information:

Item 1.	Legal Proceedings	41
Item 1.A	Risk Factors	41
Item 4.	Submission of Matters to a Vote of Security Holders	41
Item 6.	Exhibits	41
Signatures	42

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	----- JUNE 30, 2006 -----
REVENUES:	
Revenues before reimbursements	\$394,209
Reimbursements	37,230

TOTAL REVENUES	431,439

COSTS AND EXPENSES:	
Cost of services provided, before reimbursements	304,959
Reimbursements	37,230

Cost of Services	342,189
Selling, general, and administrative expenses	72,032
Corporate interest expense, net of interest income of \$1,103 and \$331, respectively	1,592

TOTAL COSTS AND EXPENSES	415,813

INCOME BEFORE INCOME TAXES	15,626
PROVISION FOR INCOME TAXES	5,565

Edgar Filing: CRAWFORD & CO - Form 10-Q

NET INCOME	\$10,061
=====	
EARNINGS PER SHARE:	
Basic	\$0.20
Diluted	\$0.20
=====	
AVERAGE NUMBER OF SHARES USED TO COMPUTE:	
Basic Earnings Per Share	49,137
Diluted Earnings Per Share	49,318
=====	
CASH DIVIDENDS PER SHARE:	
Class A Common Stock	\$0.12
Class B Common Stock	\$0.12
=====	

(See accompanying notes to condensed consolidated financial statements)

3

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
UNAUDITED
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	----- JUNE 30, 2006 -----
REVENUES:	
Revenues before reimbursements	\$192,603
Reimbursements	17,164

TOTAL REVENUES	209,767

COSTS AND EXPENSES:	
Cost of services provided, before reimbursements	148,483
Reimbursements	17,164

Cost of Services	165,647
Selling, general, and administrative expenses	36,953
Corporate interest expense, net of interest income of \$772 and \$149, respectively	594

Edgar Filing: CRAWFORD & CO - Form 10-Q

TOTAL COSTS AND EXPENSES	203,194

INCOME BEFORE INCOME TAXES	6,573
PROVISION FOR INCOME TAXES	2,360

NET INCOME	\$4,213
=====	
EARNINGS PER SHARE:	
Basic	\$0.09
Diluted	\$0.09
=====	
AVERAGE NUMBER OF SHARES USED TO COMPUTE:	
Basic Earnings Per Share	49,286
Diluted Earnings Per Share	49,396
=====	
CASH DIVIDENDS PER SHARE:	
Class A Common Stock	\$0.06
Class B Common Stock	\$0.06
=====	

(See accompanying notes to condensed consolidated financial statements)

4

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	(UNAUDITED)
	JUNE 30,
	2006

ASSETS	

CURRENT ASSETS:	
Cash and cash equivalents	\$64,980
Accounts receivable, less allowance for doubtful accounts of \$15,319 in 2006 and \$21,179 in 2005	172,751
Unbilled revenues, at estimated billable amounts	102,388
Prepaid expenses and other current assets	18,958

TOTAL CURRENT ASSETS	359,077

PROPERTY AND EQUIPMENT:	
Property and equipment, at cost	132,957
Less accumulated depreciation	(99,842)

NET PROPERTY AND EQUIPMENT	33,115

Edgar Filing: CRAWFORD & CO - Form 10-Q

OTHER ASSETS:	
Goodwill, net	110,833
Capitalized software costs, net	34,700
Deferred income tax asset, net	37,976
Other	16,665

TOTAL OTHER ASSETS	200,174

TOTAL ASSETS	\$592,366
=====	

* derived from the audited Consolidated Balance Sheet.

(See accompanying notes to condensed consolidated financial statements)

5

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS - CONTINUED
(IN THOUSANDS)

	(UNAUDITED)
	JUNE 30,
	2006

LIABILITIES AND SHAREHOLDERS' INVESTMENT	

CURRENT LIABILITIES:	
Short-term borrowings	\$30,354
Accounts payable	39,317
Accrued compensation and related costs	42,534
Deposit on sale of real estate	8,000
Deferred revenues	25,739
Self-insured risks	15,898
Accrued income taxes	24,479
Other accrued liabilities	23,662
Current installments of long-term debt	11,427

TOTAL CURRENT LIABILITIES	221,410

NONCURRENT LIABILITIES:	
Long-term debt, less current installments	40,212
Deferred revenues	10,268
Self-insured risks	11,300
Minimum pension liabilities	103,425
Postretirement medical benefit obligation	4,352
Other	14,151

TOTAL NONCURRENT LIABILITIES	183,708

SHAREHOLDERS' INVESTMENT:

Edgar Filing: CRAWFORD & CO - Form 10-Q

Class A common stock, \$1.00 par value; 50,000 shares authorized; 24,675 and 24,293 shares issued and outstanding in 2006 and 2005, respectively	24,675
Class B common stock, \$1.00 par value; 50,000 shares authorized; 24,697 shares issued and outstanding in 2006 and 2005, respectively	24,697
Additional paid-in capital	8,421
Unearned stock-based compensation	
Retained earnings	205,989
Accumulated other comprehensive loss	(76,534)
<hr style="border-top: 1px dashed black;"/>	
TOTAL SHAREHOLDERS' INVESTMENT	187,248
<hr style="border-top: 1px dashed black;"/>	
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$592,366
<hr style="border-top: 3px double black;"/>	

* derived from the audited Consolidated Balance Sheet.

(See accompanying notes to condensed consolidated financial statements)

6

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED
(IN THOUSANDS)

	JUNE 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$10,061
Reconciliation of net income to net cash provided by operating activities:	
Depreciation and amortization	9,484
Loss on sales of property and equipment, net	32
Stock-based compensation	1,248
Changes in operating assets and liabilities:	
Accounts receivable, net	(11,335)
Unbilled revenues, net	10,999
Accrued or prepaid income taxes	6,433
Accounts payable and accrued liabilities	(10,401)
Deferred revenues	6,124
Accrued retirement costs	240
Prepaid expenses and other	(1,325)
<hr style="border-top: 1px dashed black;"/>	
Net cash provided by operating activities	21,560
<hr style="border-top: 1px dashed black;"/>	
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisitions of property and equipment	(5,651)
Proceeds from sales of property and equipment	99
Capitalization of computer software costs	(4,606)
Deposit received on sale of real estate	8,000

Edgar Filing: CRAWFORD & CO - Form 10-Q

Cash received from 2004 sale of undeveloped land	-
Other investing activities	(388)

Net cash used in investing activities	(2,546)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Dividends paid	(5,900)
Proceeds from stock issued to employees under incentive plans	1,281
Increases in short-term borrowings	6,797
Payments on short-term borrowings	(5,381)
Payments on long-term debt and capital lease obligations	(721)

Net cash used in financing activities	(3,924)

Effect of exchange rate changes on cash and cash equivalents	
	449

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,539
Cash and cash equivalents at beginning of period	49,441

CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$64,980
=====	

(See accompanying notes to condensed consolidated financial statements)

7

CRAWFORD & COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements for Crawford & Company ("the Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the U.S. Securities and Exchange Commission's (SEC) regulations. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006 or other future periods.

The Condensed Consolidated Balance Sheet presented herein for December 31, 2005 has been derived from the audited consolidated financial statements as of that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

The preparation of financial statements in conformity with accounting principles

Edgar Filing: CRAWFORD & CO - Form 10-Q

generally accepted in the U.S. 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. Actual results could differ from those estimates.

With the exception of stock-based compensation related to the Company's adoption of Statement of Financial Accounting Standard ("SFAS") 123R, "Share Based Payment" ("SFAS 123R") described in Notes 2 and 6, there have been no material changes to the Company's major accounting and reporting policies as disclosed in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

2. ADOPTION OF NEW ACCOUNTING STANDARDS

SFAS 154

The Company adopted SFAS 154, "Accounting Changes and Error Corrections" ("SFAS 154") January 1, 2006. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS 154 requires retrospective application for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS 154 also states that a correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction under SFAS 154 involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. The adoption of SFAS 154 did not have any impact on the Company's consolidated financial

8

CRAWFORD & COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

position, results of operations, or cash flows. SFAS 123R, which the Company also adopted January 1, 2006, contained explicit transitional guidance. Accordingly, the requirements of SFAS 154 did not apply to the Company's concurrent adoption of SFAS 123R.

SFAS 123R and related FASB Staff Positions

Prior to January 1, 2006, the Company accounted for its stock-based compensation plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations, as permitted by the original SFAS 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). Under APB 25, no stock-based compensation expense was recognized in the Company's Consolidated Statements of Income for stock options and employee stock purchase plans. The Company's executive stock bonus plan, adopted in 2005, was subject to expense recognition under APB 25, and thus compensation expense was recognized for that plan in the Company's Consolidated Statement of Income for all reporting periods in 2005.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123R and the related FASB Staff Positions, using the modified-prospective-transition method. Under that transition method, compensation cost recognized in the first half of 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in

Edgar Filing: CRAWFORD & CO - Form 10-Q

accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Under the modified-prospective-transition method, results for prior periods have not been restated.

As a result of adopting SFAS 123R on January 1, 2006, the Company's income before income taxes for the quarter and six months ended June 30, 2006 was \$351,000 and \$617,000 lower, respectively, and net income for the same periods was \$299,000 and \$539,000 lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share ("EPS") for the six-month period ended June 30, 2006 were \$.02 and \$.01 lower, respectively, than if the Company had continued to account for share-based compensation under APB 25. For the quarter ended June 30, 2006, basic and diluted EPS were both lower by less than \$.01 than if the Company had continued to account for share-based compensation under APB 25. The recognition of these additional costs under SFAS 123R is primarily related to the Company's stock option plans and employee stock purchase plans since the Company's executive stock bonus plan was already subject to expense recognition for financial reporting purposes under APB 25.

Prior to the adoption of SFAS 123R, the Company presented all tax benefits of deductions resulting from stock-based compensation as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123R requires the cash flows related to the tax benefits resulting from tax deductions in excess of the compensation cost recognized for stock-based awards (excess tax benefits) to be classified as financing cash flows. During the quarter and six-month period ended June 30, 2006, the Company had no such excess tax benefits.

The following table illustrates the effect on net income and EPS if the Company had applied the

9

CRAWFORD & COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

fair value recognition provisions of the original SFAS 123 to all stock-based awards for all prior periods presented. For purposes of this pro-forma disclosure, the value of the options is estimated using the Black-Scholes-Merton option-pricing formula and amortized to expense over the vesting periods.

(in thousands, except earnings per share)	Quarter ended June 30, 2005 -----	Six months ended June 30, 2005 -----
Net income as reported	\$2,681	\$5,042
Add: Stock-based compensation expense included in reported net income, net of tax	23	64
Less: Stock-based compensation expense using the fair value method, net of tax	(391)	(737)
	-----	-----
Pro forma net income	\$2,313	\$4,369
	=====	=====
Earnings per share - basic:		

Edgar Filing: CRAWFORD & CO - Form 10-Q

As reported	\$ 0.05	\$ 0.10
	=====	=====
Pro forma	\$ 0.05	\$ 0.09
	=====	=====
Earnings per share - diluted:		
As reported	\$ 0.05	\$ 0.10
	=====	=====
Pro forma	\$ 0.05	\$ 0.09
	=====	=====

3. PENDING ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARDS

Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), is effective for fiscal years beginning after December 15, 2006. FIN 48 will be applicable to all routine and nonroutine positions for taxes accounted for under SFAS 109, "Accounting for Income Taxes," by creating a single model to address uncertainties in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 removes income taxes from the scope of SFAS 5, "Accounting for Contingencies." Due to the recent issuance of FIN 48, the Company is still evaluating the potential impact that FIN 48 will have on its consolidated financial position, results of operations, and cash flows.

For FASB Interpretation No. 46-R, "Consolidation of Variable Interest Entities" ("FIN 46-R"), the FASB recently issued a Staff Position ("FSP"), "Determining the Variability to be Considered in Applying FIN 46-R" ("FSP FIN 46-R"). This Staff Position addresses how a company should determine the variability of expected losses and expected residual returns in applying FIN 46-R. The variability that is considered in applying FIN 46-R affects the determination of (a) whether an entity is a variable interest entity ("VIE"), (b) which interests in the entity are variable interests, and c) which party, if any, is the primary beneficiary of the VIE.

10

CRAWFORD & COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

FSP FIN 46-R is effective for reporting periods (including interim periods) beginning after June 15, 2006. Early application is permitted for periods for which financial statements have not yet been issued. The Company's adoption of FSP FIN 46-R on July 1, 2006 will not have any impact on the reporting or consolidation of entities that are currently subject to the Company's application of FIN 46-R.

4. EARNINGS PER SHARE

Basic earnings per share ("EPS") are computed based on the weighted-average number of total common shares outstanding during the respective periods. Unvested grants of restricted stock, even though legally outstanding, are not included in the weighted-average number of common shares for purposes of computing basic EPS. Diluted EPS are computed under the "treasury stock" method based on the weighted-average number of total common shares outstanding

Edgar Filing: CRAWFORD & CO - Form 10-Q

(excluding unvested shares of restricted stock), plus the dilutive effect of: outstanding stock options, estimated shares issuable under employee stock purchase plans, and nonvested shares under the executive stock bonus plan that vest based on service conditions or on performance conditions that have been achieved.

Below is the calculation of basic and diluted EPS for the quarters and six months ended June 30, 2006 and 2005:

(in thousands, except earnings per share)	Quarter ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net income available to common shareholders	\$ 4,213	\$ 2,681	\$10,061	\$ 5,042
	=====	=====	=====	=====
Weighted-average common shares outstanding	49,334	48,884	49,163	48,878
Less: Weighted-average unvested common shares outstanding	48	--	26	--
	-----	-----	-----	-----
Weighted-average common shares used to compute basic earnings per share	49,286	48,884	49,137	48,878
Dilutive effects of stock-based compensation plans	110	507	181	510
	-----	-----	-----	-----
Weighted-average common shares used to compute diluted earnings per share	49,396	49,391	49,318	49,388
	=====	=====	=====	=====
Basic earnings per share	\$ 0.09	\$ 0.05	\$ 0.20	\$ 0.10
	=====	=====	=====	=====
Diluted earnings per share	\$ 0.09	\$ 0.05	\$ 0.20	\$ 0.10
	=====	=====	=====	=====

Certain stock options are antidilutive. Additional options to purchase 3,465,355 shares of the Company's Class A common stock at exercise prices ranging from \$6.36 to \$19.13 per share were outstanding at June 30, 2006 but were not included in the computation of diluted EPS because the options' exercise prices were greater than the average market price of the common shares. Additional options to purchase 25,000 shares of the Company's Class A common stock at an exercise price of \$5.60 were outstanding at June 30, 2006, but were not included in the computation of diluted EPS because the options' exercise prices, when added to the average unearned compensation costs, were greater than the average market price of the common shares.

Edgar Filing: CRAWFORD & CO - Form 10-Q

For the quarters and six months ended June 30, 2006 and 2005, comprehensive income for the Company consisted of net income and net foreign currency translation adjustments. Below is the calculation of comprehensive income for the quarters and six months ended June 30, 2006 and 2005:

(in thousands)	Quarter ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net income	\$4,213	\$2,681	\$10,061	\$5,042
Foreign currency translation adjustments	2,628	473	2,050	2,457
Comprehensive income	\$6,841	\$3,154	\$12,111	\$7,499

6. ACCOUNTING FOR STOCK-BASED COMPENSATION

As disclosed in Note 2, the Company adopted SFAS 123R and the related FASB Staff Positions effective January 1, 2006. SFAS 123R requires certain disclosures for annual reporting periods. However, SEC Staff Accounting Bulletin 107 requires registrants to provide these same disclosures for the interim period in which SFAS 123R was adopted, and for any subsequent interim periods in the first year of adoption.

At June 30, 2006, the Company has three types of stock-based compensation plans subject to SFAS 123R: stock option plans, an executive stock bonus plan (performance shares and restricted shares), and employee stock purchase plans. Under SFAS 123R, the fair value of an equity award is estimated on the grant date without regard to service or performance conditions. The fair value is recognized as compensation expense over the requisite service period for all awards that vest. Estimates are made for the number of awards that will vest, and subsequent adjustments are made to reflect actual vesting. Compensation cost is not recognized for awards that do not vest because service or performance conditions are not satisfied. Compensation cost recognized at any date equals at least the portion of the grant-date value of an award that is vested at that date. For awards granted prior to January 1, 2006 that were not previously subject to expense recognition under APB 25, compensation expense under SFAS 123R is recognized only for the portions of these awards that were unvested at the adoption of SFAS 123R. Expense for these awards is recognized ratably beginning January 1, 2006 over the remaining vesting life of each award.

The pre-tax compensation expense recognized for all plans was \$491,000 and \$1,248,000 for the quarter and six months ended June 30, 2006, respectively. For the same periods in 2005, pre-tax compensation expense recognized under APB 25 was \$35,000 and \$98,000, respectively.

The total income tax benefit recognized in the income statement for stock-based

Edgar Filing: CRAWFORD & CO - Form 10-Q

compensation arrangements was \$101,000 and \$301,000 for the quarter and six months ended June 30, 2006, respectively. For the same periods in 2005, the total income tax benefit recognized was \$13,000 and \$35,000, respectively. Some of the Company's stock-based compensation awards are granted under plans which are designed not to be taxable as compensation to the recipient based on tax laws of the United States or the applicable country. Accordingly, the Company does not recognize tax benefits on all of its stock-based compensation expense recognized for financial reporting purposes.

Stock Option Plans

The Company has stock option plans for key employees and directors that provide for nonqualified and incentive stock option grants. All stock options are for shares of the Company's Class A common stock. Option awards are granted with an exercise price equal to the market price of the Company's stock at the date of grant. The Company's stock option plans are approved by shareholders, although the Company's Board of Directors is authorized to make specific grants of stock options.

Under the key employee stock option plan, incentive and nonqualified options for up to 6,250,000 shares may be granted. Employee stock options typically are subject to graded vesting over five years (20% each year) and have a typical life of ten years. Under SFAS 123R, compensation cost for stock options is recognized on a straight-line basis over the requisite service period for the entire award. For awards granted prior to the adoption of SFAS 123R, compensation expense is recognized only for the portion of the award that was unvested at the adoption of SFAS 123R on January 1, 2006. During the quarter and six months ended June 30, 2006, compensation expense of \$161,000 and \$351,000, respectively, was recognized for the key employee stock option plan.

Under the directors' plan, board members are granted options upon initial election to the Board and upon annual re-election to the Board. Options for up to 450,000 shares may be granted under the directors' plan. Directors' options are fully vested at grant date and have a typical life of ten years. During the quarter and six months ended June 30, 2006, compensation expense of \$91,000 was recognized for directors' options under SFAS 123R.

A summary of option activity as of June 30, 2006, and changes during the quarter and six months then ended, is presented below:

13

CRAWFORD & COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

	Shares (000)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (000)
	-----	-----	-----	-----
Outstanding at January 1, 2006	4,595	\$10		
Granted	25	6		
Exercised	--	--		
Forfeited or expired	(154)	11		

Edgar Filing: CRAWFORD & CO - Form 10-Q

Outstanding at March 31, 2006	4,466	9	5.1 years	\$ 781
	-----	===	=====	=====
Granted	24	6		
Exercised	(10)	5		
Forfeited or expired	(148)	8		

Outstanding at June 30, 2006	4,332	9	4.7 years	\$1,409
	=====	===	=====	=====
Vested at June 30, 2006	2,966	\$11	3.9 years	\$ 582
	=====	===	=====	=====
Exercisable at June 30, 2006	2,966	\$11	3.9 years	\$ 582
	=====	===	=====	=====

The weighted-average grant-date fair value of stock options granted during the quarter and six months ended June 30, 2006 was \$6.00 and \$5.80, respectively. For the same periods in 2005, the weighted-average grant-date fair value of stock options granted was \$7.40 and \$7.25, respectively. The total intrinsic value of stock options exercised during the quarter and six months ended June 30, 2006 was \$14,000. For the same periods in 2005, the total intrinsic value of stock options exercised was \$3,000 and \$78,000, respectively. The total fair value of stock options vesting during the quarter and six months ended June 30, 2006 was \$64,000 and \$764,000, respectively. For the same periods in 2005, the total fair value of stock options vesting was \$142,000 and \$821,000, respectively.

At June 30, 2006, there was \$1,681,000 of total unrecognized compensation cost related to nonvested stock options under the key employee stock option plan. This cost is expected to be recognized over a weighted-average period of 2.1 years.

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton option-pricing formula, with the following weighted-average assumptions:

	Six Months Ended	
	June 30, 2006	June 30, 2005
	-----	-----
Expected dividend yield	3.4%	3.3%
Expected volatility	37%	34%
Risk-free interest rate	5.0%	4.1%
Expected term of options	7 years	7 years

CRAWFORD & COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

The expected dividend yield is based on the Company's historical dividend yield. The expected volatility of the price of the Company's Class A common stock is based on historical realized volatility. The risk-free interest rate is the implied yield available on U.S. Treasury zero-coupon issues with terms equal to

Edgar Filing: CRAWFORD & CO - Form 10-Q

the expected term used in the pricing formula. The expected term of the option takes into account both the contractual term of the option and the effects of expected exercise behavior.

Executive Stock Bonus Plan

Under the Company's executive stock bonus plan, the Company is authorized to issue up to 4,000,000 shares of the Company's Class A common stock. The plan has two components: the performance share component and the restricted share component.

Under the performance share component, key employees of the Company are eligible to earn shares of stock upon the achievement of certain individual and corporate objectives. Share grants are determined at the discretion of the Company's Board of Directors and are subject to graded vesting over periods typically ranging from three to five years. Shares are not issued until the vesting requirements have lapsed. Dividends are not paid or accrued on unvested shares. The grant-date fair value of a performance share grant is based on the market value of the Company's Class A common stock on the date of grant, reduced for the present value of estimated dividends not received on the unvested shares during the vesting period. If the award contains a performance condition, compensation expense for each vesting tranche in the award is recognized ratably from the service inception date to the vesting date for each tranche. Otherwise, compensation expense is recognized on a straight-line basis over the requisite service period.

During 2005, a total of 130,300 performance shares were granted, 69,850 shares were earned based on achievement of 2005 performance goals, and 13,970 (20%) of those earned shares vested at the end of 2005. The remaining 2005 performance shares that were earned will vest ratably over the next four years subject only to service conditions.

In 2006, an additional 761,050 performance shares were granted, subject to the achievement of established performance goals. Some of these performance goals pertain only to 2006, while certain performance goals extend through 2010. Some of these awards also contain service conditions that must be satisfied. Based on interim achievement rates at June 30, 2006, the Company estimates that 564,000 of these performance shares will be earned. During 2006, compensation expense is being recognized for these performance shares based on the estimated achievement rates for the performance goals and on the related vesting schedules.

15

CRAWFORD & COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of the status of the Company's nonvested performance shares as of June 30, 2006, and changes during the quarter and six months then ended, is presented below:

	Shares	Weighted-Average Grant Date Fair Value
	-----	-----
Nonvested at January 1, 2006	55,880	\$6.38

Edgar Filing: CRAWFORD & CO - Form 10-Q

Granted	761,050	5.01
Vested	--	--
Forfeited	--	--

Nonvested at March 31, 2006	816,930	5.11
Granted	--	--
Vested	--	--
Forfeited	(9,380)	5.28

Nonvested at June 30, 2006	807,550	\$5.10
	=====	

The total fair value of the 13,970 performance shares vested at June 30, 2006 was \$89,000. At June 30, 2005, no performance shares were vested.

Compensation expense recognized under SFAS 123R for all performance shares totaled \$124,000 and \$598,000 for the quarter and six months ended June 30, 2006, respectively. For the same periods in 2005, compensation expense recognized under APB 25 for all performance shares totaled \$36,000 and \$99,000, respectively. Compensation cost for these awards is net of estimated or actual award forfeitures. As of June 30, 2006, there was \$2,519,000 of total unearned compensation cost related to nonvested performance shares that is expected to be recognized over a weighted-average period of 2.4 years.

Under the restricted share component, the Board of Directors may elect to issue restricted shares of stock in lieu of, or in addition to, cash bonus payments to certain key employees. Employees receiving these shares have restrictions on the ability to sell the shares. Such restrictions lapse ratably over vesting periods typically ranging from two to five years. For grants of restricted shares, vested and unvested shares issued are eligible to receive nonforfeitable dividends. The grant-date fair value of a restricted share grant is based on the market value of the stock on the date of grant. Compensation cost is recognized on a straight-line basis over the requisite service period since these awards only have service conditions once granted.

16

CRAWFORD & COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)

A summary of the status of the Company's nonvested restricted shares as of June 30, 2006, and changes during the quarter then ended, is presented below:

	Shares	Weighted- Average Grant Date Fair Value
	-----	-----
Nonvested at January 1, 2006	5,000	\$7.64
Granted	50,000	5.87
Vested	--	--
Forfeited	--	--

Nonvested at March 31, 2006	55,000	6.03
Granted	--	--
Vested	--	--

Edgar Filing: CRAWFORD & CO - Form 10-Q

Forfeited	--	--

Nonvested at June 30, 2006	55,000	\$6.03
	=====	

Compensation expense recognized for all restricted shares totaled \$16,000 and \$33,000, respectively, for the quarter and six months ended June 30, 2006. There were no restricted shares granted or outstanding as of June 30, 2005. As of June 30, 2006, there was \$297,000 of total unearned compensation cost related to nonvested restricted shares, which is expected to be recognized over a weighted-average period of 4.5 years.

Employee Stock Purchase Plans

At June 30, 2006, the Company has two employee stock purchase plans: the U.S. Plan and the United Kingdom ("U.K.") Plan. The U.S. Plan is also available to eligible employees in Canada, Puerto Rico, and the U.S. Virgin Islands. Both plans are compensatory under SFAS 123R; neither was compensatory under APB 25.

For both the U.S. and U.K. plans, the requisite service period is the period of time over which the employees contribute to the plans through payroll withholdings. For purposes of recognizing compensation expense, estimates are made for the total withholdings expected over the entire withholding period. The market price of a share of stock at the beginning of the withholding period is then used to estimate the total number of shares that will be purchased using the total estimated withholdings. Compensation cost is recognized ratably over the withholding period.

Under the U.S. Plan, the Company is authorized to issue up to 1,500,000 shares of its Class A common stock to eligible employees. Participating employees can elect each year to have up to \$21,000 of their annual earnings withheld to purchase shares at the end of the one-year withholding period. The purchase price of the stock is 85% of the lesser of the closing price for a share of stock on the first day or the last day of the withholding period.

Participating employees may cease payroll withholdings during the withholding period and/or request a refund of all amounts withheld before any shares are purchased.

17

CRAWFORD & COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Since the U.S. Plan involves a look-back option, the estimate of the fair value for the share option is separated into two components. The first component is calculated as 15% (the employee discount) of a nonvested share of the Company's Class A common stock. The second component involves using the Black-Scholes-Merton option-pricing formula to value a one-year option on 85% of a share of the Company's Class A common stock. This value is adjusted to reflect the effect of the dividends that the employees do not receive during the life of the share option.

At June 30, 2006, an estimated 100,000 shares can be purchased under the U.S. Plan at the end of the current withholding period for a discounted purchase price of \$5.62 per share. During the quarter and six months ended June 30, 2006, compensation expense of \$51,000 and \$104,000, respectively, was recognized. At

Edgar Filing: CRAWFORD & CO - Form 10-Q

June 30, 2006, there was no remaining unearned compensation cost to be recognized through the end of the current withholding period which ended June 30, 2006.

Under the U.K. Plan, the Company is authorized to issue up to 1,000,000 shares of its Class A common stock. Under the U.K. Plan, eligible employees can elect to have up to £250 pounds withheld from payroll each month to purchase shares at the end of a three-year withholding period. The purchase price of a share of stock is 85% of the market price at the beginning of the withholding period. Participating employees may cease payroll withholdings and/or request a refund of all amounts withheld before any shares are purchased.

Under the U.K. Plan, fair value is equal to 15% (the employee discount) of the market price of a share of the Company's Class A common stock at the beginning of the withholding period. No adjustment is made to reflect the effect of the dividends that the employees do not receive during the life of the share option since employees are credited with interest by a third party on their withholdings during the withholding period. For purposes of estimating fair value, this interest-paying feature is deemed to be materially equivalent to the foregone dividends on the underlying shares of stock.

At June 30, 2006, an estimated 422,000 shares in total could be purchased under the U.K. Plan at the end of the withholding periods. These estimates are subject to change based on fluctuations in the value of the British pound against the U.S. dollar. The discounted purchase price for a share of the Company's Class A common stock under the U.K. Plan ranges from \$4.56 to \$5.97. For the quarter and six months ended June 30, 2006, compensation cost of \$47,000 and \$70,000, respectively, was recognized for the U.K. Plan. At June 30, 2006, there was an estimated \$277,000 of total unrecognized compensation cost related to the U.K. Plan, which is expected to be recognized through March 2009.

During the quarter and six months ended June 30, 2006, a total of 308,708 and 308,940 shares, respectively, of Class A common stock were issued under the U.K. Plan.

18

CRAWFORD & COMPANY NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

7. DEPOSIT ON SALE OF THE COMPANY'S CORPORATE HEADQUARTERS AND DEFERRED GAIN

On June 30, 2006, the Company sold the land and building utilized as its corporate headquarters in Atlanta, Georgia. These assets have a net carrying amount of \$2,842,000. The base sales price of \$8,000,000 was paid in cash at closing. Under the sale agreement, the \$8,000,000 base sales price is subject to upward revision depending upon the buyer's ability to subsequently redevelop the property. Also on June 30, 2006, the Company entered into a 12-month leaseback agreement for these same facilities. Prior to termination of the leaseback agreement, the Company plans to relocate its corporate headquarters to other nearby leased facilities (see Note 13).

Under SFAS 98, "Accounting for Leases," the Company deferred recognition of the gain related to this sale. Net of transaction costs, a pre-tax gain of \$4,864,000 will be recognized by the Company upon the expiration or termination of the leaseback agreement, expected to be on or before June 30, 2007. The gain of \$4,864,000 is based on the base sales price and does not include any amount for the potential upward revision of the sales price. Should such revision

Edgar Filing: CRAWFORD & CO - Form 10-Q

subsequently occur, the Company could ultimately realize a larger gain. The Company cannot predict the likelihood of any subsequent price revisions.

Prior to the sale, this disposal group of assets had a fair value that exceeded its depreciated cost. No adjustment to the carrying cost was required when this disposal group was classified as "held for sale" under the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company does not own these assets at June 30, 2006. However, these assets are reported in Prepaid Expenses and Other Current Assets on the Company's Condensed Consolidated Balance Sheet at carrying cost in accordance with the provisions of SFAS 144. Pending recognition of the gain described above, the \$8,000,000 received by the Company on June 30, 2006 is reported on the Company's Condensed Consolidated Balance Sheet as a deposit liability.

8. RETIREMENT PLANS

The Company and its subsidiaries sponsor various defined benefit and defined contribution retirement plans covering substantially all employees. Effective December 31, 2002, the Company elected to freeze its U.S. defined benefit pension plan and replace it with a defined contribution plan. The Company's U.K. defined benefit retirement plans have also been frozen for new employees, but existing participants may still accrue additional benefits. Net periodic benefit cost related to the U.S., U.K., and Holland defined benefit pension plans for the quarters and six months ended June 30, 2006 and 2005 included the following components:

19

CRAWFORD & COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(in thousands)	Quarter ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Service cost	\$ 660	\$ 515	\$ 1,261	\$ 1,029
Interest cost	8,169	7,842	16,110	15,685
Expected return on assets	(8,774)	(8,128)	(17,252)	(16,246)
Recognized net actuarial loss	2,525	1,876	5,009	3,751
	\$ 2,580	\$ 2,105	\$ 5,128	\$ 4,219
Net periodic benefit cost	\$ 2,580	\$ 2,105	\$ 5,128	\$ 4,219

9. SEGMENT INFORMATION

The Company has two reportable segments, one which provides claims services through offices located in the United States ("U.S. Operations") and the other which provides similar services through offices or representatives located in 62 other countries ("International Operations"). The Company's reportable segments represent components of the business for which separate financial information is available that is evaluated regularly by the chief decision maker in deciding how to allocate resources and in assessing performance. Inter-segment sales are recorded at cost and are not material. The Company measures segment profit based

Edgar Filing: CRAWFORD & CO - Form 10-Q

on operating earnings, a non-GAAP financial measure defined as earnings before net corporate interest expense, stock option expense, and income taxes.

Financial information for the quarters and six months ended June 30, 2006 and 2005 covering the Company's reportable segments is presented below:

(in thousands)	Quarter ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
REVENUES:				
U.S., before reimbursements	\$118,743	\$114,354	\$249,849	\$226,861
International, before reimbursements	73,860	71,648	144,360	143,475
	-----	-----	-----	-----
Total Segment Revenues before Reimbursements	192,603	186,002	394,209	370,336
Reimbursements	17,164	20,779	37,230	36,088
	-----	-----	-----	-----
TOTAL REVENUES	\$209,767	\$206,781	\$431,439	\$406,424
	=====	=====	=====	=====
SEGMENT OPERATING EARNINGS:				
U.S.	\$ 4,305	\$ 1,810	\$ 12,936	\$ 3,646
International	3,213	3,696	4,899	7,041
	-----	-----	-----	-----
TOTAL SEGMENT OPERATING EARNINGS	7,518	5,506	17,835	10,687
Deduct:				
Stock option expense	(351)	--	(617)	--
Net corporate interest expense	(594)	(1,355)	(1,592)	(2,882)
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES	\$ 6,573	\$ 4,151	\$ 15,626	\$ 7,805
	=====	=====	=====	=====

20

CRAWFORD & COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

10. COMMITMENTS AND CONTINGENCIES

The Company normally structures its acquisitions to include earnout payments, which are contingent upon the acquired entity reaching certain revenue and operating earnings targets. The amount of the contingent payments and length of the earnout period varies for each acquisition, and the ultimate payments when made will vary, as they are dependent on future events. Based on projected levels of revenues and operating earnings, additional payments after June 30, 2006 under existing earnout agreements would approximate \$2.2 million through 2009, as follows:

2006	2007	2008	2009
------	------	------	------

Edgar Filing: CRAWFORD & CO - Form 10-Q

-- -- \$2,094,000 \$150,000

In the normal course of the claims administration services business, the Company is named as a defendant in suits by insureds or claimants contesting decisions made by the Company or its clients with respect to the settlement of claims. Additionally, clients of the Company have brought actions for indemnification on the basis of alleged negligence by the Company, its agents, or its employees in rendering service to clients. The majority of these claims are of the type covered by insurance maintained by the Company. However, the Company is self-insured for the deductibles under various insurance coverages. In the opinion of Company management, adequate provisions have been made for such self-insured risks.

11. DEBT COVENANTS

The Company's senior debt and revolving credit agreement contain various provisions that, among other things, require the Company to maintain defined leverage ratios, fixed charge coverage ratios, and minimum net worth thresholds. These provisions also limit the incurrence of certain liens, encumbrances, and disposition of assets in excess of defined amounts, none of which are expected to restrict future operations. The Company was in compliance with its debt covenants as of June 30, 2006.

On June 16, 2006, the Company executed amendments to its senior debt and revolving credit agreements. As a result of these amendments, the provisions of the original agreements were modified to alter the terms and conditions under which the Company could sell its corporate headquarters facilities in Atlanta, Georgia (see Note 7).

12. SOUTH AFRICA BLACK ECONOMIC EMPOWERMENT AGREEMENT

The government of South Africa has adopted policies to increase black ownership of South African businesses, including foreign-owned businesses located in South Africa. This initiative is called Black Economic Empowerment. The Company's South Africa subsidiary, Crawford & Company South Africa ("Crawford SA"), entered into a Black Economic Empowerment agreement ("BEE agreement") with a black-owned entity in South Africa (the "BEE entity"). As part of this BEE agreement, Crawford SA issued 54,792 voting shares of its subsidiary stock to the BEE entity for par value of 54,792 South African Rand (approximately US \$9,000). The 54,792 shares represent a 25.1% ownership interest in Crawford SA.

21

CRAWFORD & COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Prior to this transaction, Crawford SA was a wholly-owned subsidiary of the Company. This capital transaction at the subsidiary level changed the Company's ownership interest in Crawford SA by creating a 25.1% minority interest in the subsidiary. To reflect the Company's change in its ownership interest of Crawford SA and to reflect the creation of the minority interest, approximately \$601,000 was charged to the Company's Retained Earnings and credited to Minority Interest on the Company's consolidated balance sheet. This amount represented 25.1% of the carrying value of the Company's investment in its South Africa subsidiary.

Edgar Filing: CRAWFORD & CO - Form 10-Q

13. SUBSEQUENT EVENT

Effective August 1, 2006, the Company entered into an operating lease agreement for the lease of approximately 160,000 square feet of office space in Atlanta, Georgia to be used as the Company's future corporate headquarters. This lease has a term of eleven years with total minimum monthly lease payments of approximately \$41.5 million over the life of the lease. Additionally, the Company will be responsible for certain property operating expenses. The Company expects to occupy this office space sometime in early 2007 after the completion of leasehold improvements. Approximately \$4.9 million of leasehold improvements will be provided by the lessor. Between August 1, 2006 and the occupancy date in early 2007, rental costs incurred during the leasehold improvement construction period will be charged to operating expenses as required by FASB Staff Position 13-1, "Accounting for Rental Costs Incurred during a Construction Period."

22

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Crawford & Company:

We have reviewed the condensed consolidated balance sheet of Crawford & Company as of June 30, 2006, and the related condensed consolidated statements of income for the three-month and six-month periods ended June 30, 2006 and 2005, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2006 and 2005. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Crawford & Company as of December 31, 2005, and the related consolidated statements of income and cash flows for the year then ended (not presented herein) and in our report dated March 9, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Atlanta, Georgia
August 8, 2006

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This quarterly report contains and incorporates by reference forward-looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995 (the "1995 Act"). We desire to take advantage of the "safe harbor" provisions of the 1995 Act. The 1995 Act provides a "safe harbor" for forward-looking statements to encourage companies to provide information without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected.

Statements contained in this report that are not historical in nature are forward-looking statements made pursuant to the "safe harbor" provisions of the 1995 Act. These statements are included throughout this report, and in the documents incorporated by reference in this report, and relate to, among other things, projections of revenues, earnings, earnings per share, cash flows, capital expenditures, working capital or other financial items, output, expectations, or trends in revenues or expenses. These statements also relate to our business strategy, goals and expectations concerning our market position, future operations, margins, case volumes, profitability, contingencies, debt covenants, liquidity, and capital resources. The words "anticipate", "believe", "could", "would", "should", "estimate", "expect", "intend", "may", "plan", "goal", "strategy", "predict", "project", "will" and similar terms and phrases identify forward-looking statements in this report and in the documents incorporated by reference in this report.

Additional written and oral forward-looking statements may be made by us from time to time in information provided to the Securities and Exchange Commission, press releases, our website, or otherwise.

Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. Our operations and the forward-looking statements related to our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our results of operations and whether the forward-looking statements ultimately prove to be correct. Included among, but not limited to, the risks and uncertainties we face are declines in the volume of cases referred to us for many of our service lines associated with the property and casualty insurance industry, global economic conditions, interest rates, foreign exchange rates, regulations and practices of various governmental authorities, the competitive environment, the financial conditions of our clients, regulatory changes related to funding of defined benefit pension plans, the fact that our U.S. and U.K. defined benefit pension plans are significantly underfunded, changes in the degree to which property and casualty insurance carriers outsource their claims handling functions, changes in overall employment levels and associated workplace injury rates in the U. S., the ability to identify new revenue sources not tied to the insurance underwriting cycle, the ability to develop or acquire information technology resources to support and grow our business, the ability to attract and retain qualified personnel, renewal of existing major contracts with clients on satisfactory financial terms, general risks associated with doing business outside the U.S., our ability to comply with debt covenants, the outcome of our legal proceedings, possible legislation or changes in market

Edgar Filing: CRAWFORD & CO - Form 10-Q

conditions that may curtail or limit growth in product

24

liability and securities class actions, man-made disasters and natural disasters, and other risk factors in our 2005 Annual Report on Form 10-K and other documents that we file with the Securities and Exchange Commission. Therefore, you should not place undue reliance on any forward-looking statements.

Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect events anticipated or unanticipated. All future written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the cautionary statements made herein.

BUSINESS OVERVIEW

Based in Atlanta, Georgia, Crawford & Company is the world's largest independent provider of claims management solutions to insurance companies and self-insured entities, with a global network of more than 700 offices in 63 countries. Our major service lines include property and casualty claims management, integrated claims and medical management for workers' compensation, legal settlement administration including class action and warranty inspections, and risk management information services. Our shares are traded on the New York Stock Exchange under the symbols CRDA and CRDB.

Insurance companies, which represent the major source of our revenues, customarily manage their own claims administration function but require limited services which we provide, primarily field investigation and evaluation of property and casualty insurance claims. Self-insured entities typically require a broader range of services from us. In addition to field investigation and evaluation of their claims, we may also provide initial loss reporting services for their claimants, loss mitigation services such as medical case management and vocational rehabilitation, risk management information services, and administration of the trust funds established to pay their claims. Finally, we also perform legal settlement administration related to securities, product liability, bankruptcy, and other class action settlements, including identifying and qualifying class members, determining and dispensing settlement payments, and administering the settlement funds. Such services are generally referred to by us as class action services.

The claims management services market, both in the United States ("U.S.") and internationally, is highly competitive and comprised of a large number of companies of varying size and scope of services. The demand from insurance companies and self-insured entities for services provided by independent claims service firms like us is largely dependent on industry-wide claims volumes, which are affected by the insurance underwriting cycle, weather-related events, general economic activity, and overall employment levels and associated workplace injury rates. Accordingly, we cannot predict case volumes which may be referred to us in the future.

We generally earn our revenues on an individual fee-per-claim basis. Accordingly, the volume of claim referrals to us is a key driver of our revenues. When the insurance underwriting market is soft, insurance companies are generally more aggressive in the risks they underwrite, and insurance premiums and policy deductibles decline. This usually results in an increase in

Edgar Filing: CRAWFORD & CO - Form 10-Q

industry-wide claim referrals which will increase claim referrals to us provided we maintain at least our existing share of the overall claims services market. During a hard insurance underwriting market, as we have experienced since the September 11, 2001 terrorist attacks,

25

insurance companies become very selective in the risks they underwrite, and insurance premiums and policy deductibles increase, sometimes quite dramatically. This results in a reduction in industry-wide claims volumes, which reduces claims referrals to us unless we can offset the decline in claim referrals with growth in our share of the overall claims services market. Our ability to grow our market share in such a highly fragmented, competitive market is primarily dependent on the delivery of superior quality service and effective, properly focused sales efforts.

RESULTS OF OPERATIONS

Consolidated net income was \$4,213,000 and \$2,681,000 for the quarters ended June 30, 2006 and 2005, respectively, and \$10,061,000 and \$5,042,000 for the six months ended June 30, 2006 and 2005, respectively.

With the exception of net corporate interest expense, stock option expense, and income taxes, our results of operations are discussed and analyzed by our two operating segments: U.S. Operations and International Operations. The discussion and analysis of our two operating segments follows the sections on net corporate interest expense, stock option expense and income taxes.

NET CORPORATE INTEREST EXPENSE

Net corporate interest expense is comprised of interest expense that we incur on our short- and long-term borrowings, partially offset by interest income we earn on available cash balances. These amounts vary based on interest rates, borrowings outstanding, and the amounts of invested cash. Net corporate interest expense totaled \$594,000 and \$1.4 million for the quarters ended June 30, 2006 and 2005, respectively, and \$1.6 million and \$2.9 million for the six months ended June 30, 2006 and 2005, respectively. During the quarter ended June 30, 2006, we received and recognized additional interest income of \$288,000 related to a tax refund claim originally settled with the IRS in June 2004.

STOCK OPTION EXPENSE

Stock option expense is mainly comprised of non-cash expenses related to historically granted stock options under our various stock option and employee stock purchase plans. Stock option expense of \$351,000 and \$617,000 was recognized for the 2006 second quarter and six month period, respectively, under SFAS 123R. Stock option expense for any periods in 2005 was not recognized in our Condensed Consolidated Statement of Income under the provisions of APB 25.

INCOME TAXES

Taxes on income totaled \$2.4 million and \$1.5 million for the quarters ended June 30, 2006 and 2005, respectively, and \$5.6 million and \$2.8 million for the six months ended June 30, 2006 and 2005, respectively. Our consolidated effective tax rate may change periodically due to changes in enacted tax rates, fluctuations in the mix of income earned from our various international operations, and our ability to utilize net operating loss carryforwards in certain of our international subsidiaries. Our effective tax rate for the quarters and six month periods ended June 30, 2006 and 2005 was 35.4%,

Edgar Filing: CRAWFORD & CO - Form 10-Q

excluding an adjustment of \$33,000 in the second quarter of 2006 related to a tax credit refund claim originally settled in 2004 with the Internal Revenue Service.

26

SEGMENT OPERATING EARNINGS

Our reportable segments, U.S. Operations and International Operations, represent components of our business for which separate financial information is available that is evaluated regularly by our chief decision maker in deciding how to allocate resources and in assessing performance.

Operating earnings, a non-GAAP (generally accepted accounting principles) financial measure, is one of the key performance measures our senior management and chief decision maker use to evaluate the performance of our operating segments and make resource allocation decisions. We believe this measure is useful to investors in that it allows them to evaluate our operating performance using the same criteria our management uses. Operating earnings excludes net corporate interest expense, stock option expense, and income taxes.

Net corporate interest, stock option expense and income taxes are recurring components of our net income, but they are not considered part of our segment operating earnings since they are managed on a corporate-wide basis. Net corporate interest expense results from capital structure decisions made by management. Stock option expense is a non-cash expense primarily related to historically issued stock options. Income taxes are based on statutory rates in effect in each of the locations where we provide services and vary throughout the world. None of these costs relate directly to the performance of our services, and therefore are excluded from segment operating earnings in order to better assess the results of our segment operating activities on a consistent basis.

In the normal course of our business, we sometimes pay for certain out-of-pocket expenses that are reimbursed by our clients. Under GAAP, these out-of-pocket expenses and associated reimbursements are reported as revenues and expenses in our Consolidated Statements of Income. In some of the discussion and analysis that follows, we do not believe it is informative to include the GAAP required gross up of our revenues and expenses for these reimbursed expenses. The amounts of reimbursed expenses and related revenues offset each other in our Consolidated Statements of Income with no impact to our net income. Except where noted, revenue amounts exclude reimbursements for out-of-pocket expenses. Expense amounts exclude reimbursed out-of-pocket expenses, net corporate interest expense, stock option expense, and income taxes.

Our discussion and analysis of operating expenses is comprised of two components. Compensation and Fringe Benefits include all compensation, payroll taxes, and benefits provided to our employees which, as a service company, represents our most significant and variable expense. Expenses Other Than Compensation and Fringe Benefits include outsourced services, office rent and occupancy costs, other office operating expenses, cost of risk, and amortization and depreciation.

This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the accompanying notes.

27

Edgar Filing: CRAWFORD & CO - Form 10-Q

Operating results for our U.S. and international operations, reconciled to net income, were as follows:

(in thousands)	Quarter ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
REVENUES:				
U.S., before reimbursements	\$118,743	\$114,354	\$249,849	\$226,861
International, before reimbursements	73,860	71,648	144,360	143,475
Total, before reimbursements	192,603	186,002	394,209	370,336
Reimbursements	17,164	20,779	37,230	36,088
TOTAL	\$209,767	\$206,781	\$431,439	\$406,424
COMPENSATION & FRINGE BENEFITS:				
U.S.	\$ 76,447	\$ 74,200	\$157,215	\$146,316
% of Revenues before reimbursements	64.4%	64.9%	62.9%	64.5%
International	51,732	49,922	102,397	100,467
% of Revenues before reimbursements	70.0%	69.6%	70.9%	70.0%
TOTAL	\$128,179	\$124,122	\$259,612	\$246,783
% of Revenues before reimbursements	66.6%	66.7%	65.9%	66.6%
EXPENSES OTHER THAN COMPENSATION & FRINGE BENEFITS:				
U.S.	\$ 37,991	\$ 38,344	\$ 79,698	\$ 76,899
% of Revenues before reimbursements	32.0%	33.5%	31.9%	33.9%
International	18,915	18,030	37,064	35,967
% of Revenues before reimbursements	25.6%	25.2%	25.7%	25.1%
TOTAL	\$ 56,906	\$ 56,374	\$116,762	\$112,866
% of Revenues before reimbursements	29.5%	30.3%	29.6%	30.5%
Reimbursements	17,164	20,779	37,230	36,088
TOTAL	\$74,070	\$77,153	\$153,992	\$148,954
% of Revenues	35.3%	37.3%	35.7%	36.6%
OPERATING EARNINGS:				
U.S.	\$ 4,305	\$ 1,810	\$ 12,936	\$ 3,646
% of Revenues before reimbursements	3.6%	1.6%	5.2%	1.6%
International	3,213	3,696	4,899	7,041
% of Revenues before reimbursements	4.4%	5.2%	3.4%	4.9%
DEDUCT:				
Net corporate interest expense	(594)	(1,355)	(1,592)	(2,882)
Stock option expense	(351)	--	(617)	--
Income taxes	(2,360)	(1,470)	(5,565)	(2,763)
Net Income	\$ 4,213	\$ 2,681	\$ 10,061	\$ 5,042

U.S. OPERATIONS

Edgar Filing: CRAWFORD & CO - Form 10-Q

REVENUES BEFORE REIMBURSEMENTS

U.S. revenues before reimbursements by market type, for the quarters and six months ended June 30, 2006 and 2005 were as follows:

28

(in thousands)	Quarter ended			Six months	
	June 30, 2006	June 30, 2005	Variance	June 30, 2006	June 30, 2005
Insurance companies	\$ 51,563	\$ 48,215	6.9%	\$113,079	\$102,1
Self-insured entities	36,750	38,594	(4.8%)	73,591	77,9
Legal settlement administration	30,430	27,545	10.5%	63,179	46,7
Total U.S. Revenues before Reimbursements	\$118,743	\$114,354	3.8%	\$249,849	\$226,8

Revenues before reimbursements from insurance companies increased 6.9% from the 2005 second quarter to \$51.6 million in the 2006 second quarter, due to an increase in storm-related revenues from the numerous severe storms which occurred in the midwestern and northeastern U.S. These revenues increased 10.7% to \$113.1 million for the six months ended June 30, 2006, compared to \$102.2 million for the 2005 period due to an increase in storm-related revenues in our catastrophe, property central, and technical services units, including the completion of hurricane related claims assigned to us in 2005. Revenues from self-insured clients decreased 4.8% and 5.6% for the second quarter and six months ended June 30, 2006, respectively, to \$36.8 million and \$73.6 million, due primarily to a reduction in claim referrals from our existing clients, only partially offset by net new business gains. See the following analysis of U.S. cases received. Legal settlement administration revenues, including administration and inspection services, increased 10.5% and 35.2% from the 2005 second quarter and six-month period, respectively, to \$30.4 million and \$63.2 million in the 2006 second quarter and year-to-date period, respectively. Legal settlement administration revenues are project-based and can fluctuate significantly. However, we have a record backlog of projects awarded totaling approximately \$51.2 million at June 30, 2006.

REIMBURSEMENTS INCLUDED IN TOTAL REVENUES

Reimbursements for out-of-pocket expenses included in total revenues for our U.S. operations were \$10.7 million and \$23.7 million for the quarter and six months ended June 30, 2006, respectively, declining from \$13.5 million for the 2005 quarter, but increasing from \$22.2 million for the six months ended June 30, 2005. The decline in the 2006 second quarter was related to our legal settlement administration unit, where the nature of the work performed in the quarter required less out-of-pocket expenditures. However, this unit's reimbursements have increased on a year-to-date basis during 2006, reflecting an overall increase in noticing work performed on certain securities class action settlements.

Case Volume Analysis

Excluding the impact of legal settlement administration services, which has

Edgar Filing: CRAWFORD & CO - Form 10-Q

project-based revenues that are not denominated by individual cases, U.S. unit volume, measured principally by cases received, decreased 3.9% in the second quarter of 2006 compared to the same 2005 period. This decrease was partially offset by a 5.2% revenue increase from changes in the mix of services provided and in the rates charged for those services, resulting in a net 1.3% increase in U.S. revenues before reimbursements for the second quarter of 2006, excluding revenues from legal settlement administration services. The decrease in high-frequency, low-severity claims referred from our U.S. insurance company clients and an increase in high-value commercial claims generated by the 2005 hurricanes combined to increase our average revenue per claim in the 2006 second quarter. Growth in legal settlement administration services increased U.S.

29

revenues by 2.5% in the quarter ended June 30, 2006, compared to the same quarter in 2005.

For the six-month period ended June 30, 2006, U.S. unit volume decreased by 6.0% compared to the 2005 period. This decrease was offset by an 8.8% revenue increase from changes in the mix of services provided and in the rates charged for those services, resulting in a net 2.8% increase in U.S. revenues for the first six months of 2006, excluding revenues from legal settlement administration services. Growth in legal settlement administration services increased U.S. revenues by 7.3% in the 2006 six-month period, compared to the same period in 2005.

Excluding the impact of legal settlement administration services, U.S. unit volume by major service line, as measured by cases received, for the quarter and six months ended June 30, 2006 and 2005 was as follows:

(whole numbers)	Quarter ended			Six months ended		
	June 30, 2006	June 30, 2005	Variance	June 30, 2006	June 30, 2005	Variance
Casualty	44,088	46,207	(4.6%)	91,392	93,788	(2.6%)
Property	50,712	43,495	16.6%	97,238	92,052	5.6%
Vehicle	24,841	30,875	(19.5%)	51,596	63,804	(19.1%)
Workers' Compensation	31,568	36,984	(14.6%)	63,074	73,000	(13.6%)
Other	5,459	5,498	(0.7%)	10,671	11,387	(6.3%)
TOTAL U.S. CASES RECEIVED	156,668	163,059	(3.9%)	313,971	334,031	(6.0%)

The increase in property claims during the quarter and six months ended June 30, 2006 was primarily due to an influx of claims from the severe storms which occurred in the midwestern and northeastern U.S. during the 2006 second quarter. The decline in vehicle claims during the quarter and six months ended June 30, 2006 was due to a decline in referrals of high-frequency, low-severity claims from our insurance company clients. The declines in workers' compensation and casualty claims during the quarter and six months ended June 30, 2006 were due primarily to a reduction in claims from our existing clients and reflect continued weakness in reported workplace injuries.

COMPENSATION AND FRINGE BENEFITS

Edgar Filing: CRAWFORD & CO - Form 10-Q

Our most significant expense is the compensation of employees, including related payroll taxes and fringe benefits. U.S. compensation expense as a percent of revenues before reimbursements decreased to 64.4% in the second quarter of 2006, compared to 64.9% in the same 2005 quarter. For the six-month period ended June 30, 2006, U.S. compensation expense as a percent of revenues before reimbursements decreased to 62.9%, compared to 64.5% in the 2005 period. These decreases were primarily due to the utilization of operating capacity within our field operation branches as we completed claims associated with Hurricanes Katrina, Wilma and Rita and processed claims in the 2006 second quarter associated with the severe storms which occurred in the midwestern and northeastern U.S. There was an average of 4,388 full-time equivalent employees (including 188 catastrophe adjusters) in the first six months of 2006, compared to an average of 4,234 (including 165 catastrophe adjusters) in the same 2005 period.

U.S. salaries and wages totaled \$64.6 million and \$131.1 million for the quarter and six months ended June 30, 2006, respectively, increasing 9.3% and 12.0%, from \$59.1 million and \$117.1 million in the comparable 2005 periods. These increases were a result of the higher compensation associated with the increased revenues generated by our catastrophe adjusters and

30

legal settlement administration unit. Payroll taxes and fringe benefits for U.S. operations totaled \$11.8 million and \$26.1 million in the second quarter and first six months of 2006, respectively, decreasing 21.9% and 10.6% from 2005 costs of \$15.1 million and \$29.2 million for the comparable periods, primarily due to lower costs in our self-insured workers compensation and medical benefits programs.

EXPENSES OTHER THAN REIMBURSEMENTS, COMPENSATION AND FRINGE BENEFITS

U.S. expenses other than reimbursements, compensation and related payroll taxes and fringe benefits were 32.0% of revenues before reimbursements for the quarter ended June 30, 2006, down from 33.5% for the same quarter in 2005. U.S. expenses other than reimbursements, compensation and related payroll taxes and fringe benefits were 31.9% of revenues before reimbursements for the six-month period ended June 30, 2006, down from 33.9% for the same period in 2005. These decreases were primarily due to lower office expenses and professional fees which were lower as a percentage of revenues, partially offset by higher professional indemnity self-insurance costs.

REIMBURSED EXPENSES

Reimbursements for out-of-pocket expenses included in total revenues for our U.S. operations were \$10.7 million and \$23.7 million for the quarter and six months ended June 30, 2006, respectively, declining from \$13.5 million for the 2005 quarter, but increasing from \$22.2 million for the six months ended June 30, 2005. The decline in the 2006 second quarter was related to our legal settlement administration unit, where the nature of the work performed in the quarter required less out-of-pocket expenditures. However, this unit's reimbursements have increased on a year-to-date basis during 2006, reflecting an overall increase in noticing work performed on certain securities class action settlements.

DEPOSIT ON SALE OF THE COMPANY'S CORPORATE HEADQUARTERS AND DEFERRED GAIN

On June 30, 2006, we sold the land and building utilized as our corporate

Edgar Filing: CRAWFORD & CO - Form 10-Q

headquarters in Atlanta, Georgia. These assets have a net carrying amount of \$2,842,000. The base sales price of \$8,000,000 was paid in cash at closing. Under the sale agreement, the \$8,000,000 base sales price is subject to upward revision depending upon the buyer's ability to subsequently redevelop the property. Also on June 30, 2006, we entered into a 12-month leaseback agreement for these same facilities. Prior to termination of the leaseback agreement, we plan to relocate our corporate headquarters to other nearby leased facilities.

Under SFAS 98, "Accounting for Leases," we deferred recognition of the gain related to this sale. Net of transaction costs, we will recognize a pre-tax gain of \$4,864,000 upon the expiration or termination of the leaseback agreement, expected to be on or before June 30, 2007. The gain of \$4,864,000 is based on the base sale price and does not include any amount for the potential upward revision of the sales price. Should such revision subsequently occur, we could ultimately realize a larger gain. We cannot predict the likelihood of any subsequent price revisions.

Prior to the sale, this disposal group of assets had a fair value that exceeded its depreciated cost. No adjustment to the carrying cost was required when this disposal group was classified as "held for sale" under the provisions of SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We do not own these assets at June 30, 2006. However, these assets are

31

reported in Prepaid Expenses and Other Current Assets on our Condensed Consolidated Balance Sheet at carrying cost in accordance with the provisions of SFAS 144. Pending recognition of the gain described above, the \$8,000,000 that we received on June 30, 2006 is reported on our Condensed Consolidated Balance Sheet as a deposit liability.

INTERNATIONAL OPERATIONS

REVENUES BEFORE REIMBURSEMENTS

Substantially all international revenues are derived from the insurance company market.

Revenues before reimbursements from our international operations increased 3.1%, from \$71.6 million in the second quarter of 2005 to \$73.9 million in the 2006 second quarter. Revenues before reimbursements from our international operations for the first six months of 2006 totaled \$144.4 million, a 0.6% increase from \$143.5 million reported in the first six months of 2005. International unit volume, measured principally by cases received, increased 18.1% and 6.6% in the quarter and six months ended June 30, 2006, respectively, compared to the same periods in 2005. Revenues per claim decreased 12.6% and 2.6% during the quarter and six months ended June 30, 2006, respectively, due to changes in the mix of services provided and in the rates charged for those services. Revenues before reimbursements reflected a 2.4% and 3.4% decrease during the quarter and six months ended June 30, 2006, respectively, due to the negative effect of a stronger U.S. dollar, primarily as compared to the British pound and the euro.

REIMBURSEMENTS INCLUDED IN TOTAL REVENUES

Reimbursements for out-of-pocket expenses included in total revenues for our international operations decreased to \$6.5 million and \$13.5 million for the quarter and six months ended June 30, 2006, respectively, from \$7.3 million and \$13.9 million in the same 2005 periods, due primarily to the negative effect of a stronger U.S. dollar during the 2006 periods.

Edgar Filing: CRAWFORD & CO - Form 10-Q

Case Volume Analysis

International unit volume by region for the quarters and six months ended June 30, 2006 and 2005 was as follows:

(whole numbers)	Quarter ended			Six months ended		
	June 30, 2006	June 30, 2005	Variance	June 30, 2006	June 30, 2005	Va
United Kingdom	38,830	31,829	22.0%	72,393	73,184	(
Americas	34,088	27,557	23.7%	66,811	56,938	1
CEMEA	25,249	24,030	5.1%	51,784	52,005	(
Asia/Pacific	16,719	13,823	21.0%	32,289	27,266	1
	-----	-----		-----	-----	
TOTAL INTERNATIONAL CASES RECEIVED	114,886	97,239	18.1%	223,277	209,393	
	=====	=====		=====	=====	

The increase in the United Kingdom ("U.K.") unit volume was primarily due to approximately 5,600 takeover claims received during the 2006 second quarter associated with a new program. The increase in the Americas was primarily due to an increase in high-frequency, low-severity claims associated with a new client program in Brazil. The Asia/Pacific increase was due to an increase in high-frequency, low-severity claims in Australia and Singapore.

32

COMPENSATION AND FRINGE BENEFITS

As a percentage of revenues before reimbursements, compensation expense, including related payroll taxes and fringe benefits, was 70.0% for the quarter ended June 30, 2006 compared to 69.6% for the same quarter in 2005. For the six-month period ended June 30, 2006, compensation expense, including related payroll taxes and fringe benefits increased as a percentage of revenues before reimbursements to 70.9% from 70.0% in 2005. These increases primarily reflected an increase in operating capacity in our Canadian operations and increased staffing in our U.K. and Canadian units to handle claims expected to be received under new claims handling agreements. There was an average of 3,389 full-time equivalent employees in the first six months of 2006 compared to an average of 3,227 in the same 2005 period.

Salaries and wages of international personnel increased to \$43.3 million for the quarter ended June 30, 2006, from \$42.1 million in the same 2005 quarter. For the six-month periods, salaries and wages increased to \$84.7 million in 2006 from \$84.3 million in 2005. These increases were due to the increase in full-time equivalent employees. Payroll taxes and fringe benefits for international operations totaled \$8.4 million and \$17.7 million for the quarter and six months ended June 30, 2006, respectively, compared to \$7.8 million and \$16.2 million for the same period in 2005, primarily due to higher group benefits and defined contribution retirement costs. The increases in the 2006 periods were partially offset by the impact of a stronger U.S. dollar.

EXPENSES OTHER THAN REIMBURSEMENTS, COMPENSATION AND FRINGE BENEFITS

Expenses other than reimbursements, compensation and related payroll taxes and

Edgar Filing: CRAWFORD & CO - Form 10-Q

fringe benefits were 25.6% and 25.7% of international revenues before reimbursements for the quarter and six months ended June 30, 2006, respectively, as compared to 25.2% and 25.1% for the same periods in 2005.

REIMBURSED EXPENSES

Reimbursements for out-of-pocket expenses included in total revenues for our international operations decreased to \$6.5 million and \$13.5 million for the quarter and six months ended June 30, 2006, respectively, from \$7.3 million and \$13.9 million in the same 2005 periods, due primarily to the impact of a stronger U.S. dollar during the 2006 periods.

LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

At June 30, 2006, our working capital balance (current assets less current liabilities) was \$137.7 million, an increase from the December 31, 2005 balance of \$125.8 million. Cash and cash equivalents totaled \$65.0 million at June 30, 2006 and \$49.4 million at December 31, 2005.

CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities increased by \$13.7 million, from cash provided by operating activities of \$7.9 million in the six months ended June 30, 2005 to \$21.6 million in the six months ended June 30, 2006. Cash was generated in 2006 from higher net income, improved collections within our legal settlement administration unit, and the collection of accounts receivable generated from the hurricane-related claims administered in the 2005 fourth quarter. During the 2006 second quarter, we received \$3.8 million, including associated interest, from the

33

Internal Revenue Service (IRS) related to a tax credit refund claim that was previously settled with the IRS in June 2004.

CASH USED IN INVESTING ACTIVITIES

Cash used in investing activities increased by \$292,000, from \$2.3 million in the six months ended June 30, 2005 to \$2.5 million in the six months ended June 30, 2006. This increase was related to greater capitalization of computer software costs in 2006 partially offset by lower fixed asset purchases. Cash of \$8.0 million was received during the second quarter of 2006 related to the sale of our corporate headquarters. During the second quarter of 2005, we received a final payment of approximately \$7.6 million related to the 2004 sale of undeveloped land.

CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities decreased by \$2.2 million, from \$6.1 million used in the six months ended June 30, 2005 to \$3.9 million used in the six months ended June 30, 2006. This decrease in cash used was due to a \$1.0 million increase during the 2006 period in net short-term borrowings in our international operations over the level of net borrowings for the same period in 2005. In addition, proceeds from stock shares issued under employee incentive plans, primarily related to the U.K. employee stock purchase plan, increased approximately \$1.0 million during the 2006 period. Cash dividends to shareholders in both the 2006 and 2005 six-month periods ended June 30 approximated \$5.9 million. As a percentage of net income, cash dividends totaled 58.6% for the six months ended June 30, 2006, compared to 116.3% for the same

Edgar Filing: CRAWFORD & CO - Form 10-Q

period in 2005.

Our Board of Directors makes dividend decisions each quarter based on an assessment of current and projected earnings and cash flows. Our ability to pay future dividends could be impacted by many factors including the funding requirements for our defined benefit pension plans, repayments of outstanding borrowings, and future levels of cash generated by our operating activities.

Our senior debt and revolving credit agreement contain various provisions that limit the incurrence of certain liens, encumbrances, and disposition of assets in excess of defined amounts, none of which we expect to restrict future operations. Based on these provisions, a maximum amount of \$10,981,000 of our retained earnings at June 30, 2006 is available for the payment of cash dividends to shareholders during the remainder of 2006.

During the first six months of 2006, we did not repurchase any shares of our Class A or Class B Common Stock. As of June 30, 2006, 705,863 shares remain to be repurchased under the discretionary 1999 share repurchase program authorized by our Board of Directors. We believe it is unlikely that we will repurchase shares under this program in the foreseeable future due to the decline in the funded status of our defined benefit pension plans.

OTHER MATTERS CONCERNING LIQUIDITY, CAPITAL RESOURCES, AND FINANCIAL CONDITION

We maintain a \$70.0 million revolving credit line with a syndication of banks in order to meet seasonal working capital requirements and other financing needs that may arise. This revolving credit line expires in September 2010. As a component of this credit line, we maintain a letter of credit facility to satisfy certain of our own contractual obligations. Including \$14.6 million committed under the letter of credit facility, the balance of our unused line of credit totaled \$27.9 million at June 30, 2006. Our short-term borrowings typically peak during the first quarter and generally decline during the balance of the year. Short-term borrowings outstanding, including bank overdraft facilities, as of June 30, 2006 totaled \$30.4 million, increasing from \$28.9 million at the end of 2005. Long-term borrowings outstanding, including current installments of \$11.4

34

million, totaled \$51.6 million as of June 30, 2006, compared to \$52.3 million at December 31, 2005. We have historically used the proceeds from our long-term borrowings to finance business acquisitions, primarily in our international segment. Refer to the Debt Covenants discussion under the "Factors that May Affect Future Results" section of our MD&A for further discussion and analysis of our borrowing capabilities.

We believe our current financial resources, together with funds generated from operations and existing and potential borrowing capabilities will be sufficient to maintain our current operations for the next 12 months and foreseeable future.

We have not engaged in any hedging activities to compensate for the effect of exchange rate fluctuations on the operating results of our foreign subsidiaries. Foreign-currency-denominated debt serves to hedge the currency exposure of our net investment in foreign operations.

Shareholders' investment at June 30, 2006 was \$187.2 million, compared with \$179.0 million at the end of 2005. This overall increase was the result of net income, common stock issued under employee incentive plans, and net positive

Edgar Filing: CRAWFORD & CO - Form 10-Q

foreign currency translations, partially offset by dividends paid to shareholders and a charge to retained earnings related to the creation of a minority interest in our South Africa subsidiary.

OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2006, we have not entered into any off-balance sheet arrangements that could materially impact our consolidated results of operations, financial conditions, or cash flows.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. On an ongoing basis, management evaluates these estimates and judgments based upon historical experience and on various other factors that are believed to be reasonable under the circumstances. The results of these evaluations form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies and estimates since December 31, 2005. For a detailed discussion regarding the application of our critical accounting policies, see our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission, under the heading "Critical Accounting Policies and Estimates" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section.

ADOPTION OF NEW ACCOUNTING STANDARDS

Additional information related to new accounting standards adopted during 2006 is provided in Notes 2 and 6 to our condensed consolidated financial statements contained in this Form 10-Q.

35

We adopted Statement of Financial Accounting Standards 123R, "Share-Based Payment" ("SFAS 123R") and the related FASB Staff Positions on January 1, 2006. As required by the SEC's Staff Accounting Bulletin 107, we have provided all of the required disclosures of SFAS 123R in the interim period of adoption, and for any subsequent interim periods in the first year of adoption.

During the quarter and six months ended June 30, 2006, we recognized total pre-tax compensation expense for stock-based awards in the amount of \$491,000 and \$1,248,000, respectively, under SFAS 123R compared to \$35,000 and \$98,000, respectively, for the same periods in 2005 under Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees," ("APB 25"). Included in expense for the quarter and six months ended June 30, 2006 is \$351,000 and \$617,000, respectively, for our stock option and employee stock purchase plans. These plans were not subject to expense recognition in 2005 under APB 25.

Beginning in 2005, most new awards of stock-based compensation have been granted

Edgar Filing: CRAWFORD & CO - Form 10-Q

under our executive stock bonus plan, which consists of grants of performance shares and restricted shares of our Class A common stock. Awards under this plan were compensatory under APB 25, although the methods used to measure and recognize compensation costs differed somewhat from those under SFAS 123R. The adoption of SFAS 123R did not have a significant impact on compensation cost recognized for awards under our executive stock bonus plan. The increase in recognized compensation cost for these awards, \$140,000 and \$631,000, respectively, for the quarter and six months ended June 30, 2006, compared to \$35,000 and \$98,000, respectively, for the same periods in 2005, was primarily due to the number of awards granted in 2006 as compared to 2005.

FACTORS THAT MAY AFFECT FUTURE RESULTS

FORWARD LOOKING STATEMENTS

Certain information presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" may include forward-looking statements, the accuracy of which is subject to a number of risks, uncertainties and assumptions. The section captioned "Cautionary Statement Concerning Forward-Looking Statements" in this Form 10-Q and Item 1.A. of our Annual Report on Form 10-K for the year ended December 31, 2005 discuss such risks, uncertainties and assumptions and other key factors that could cause actual results to differ materially from those expressed in such forward-looking statements.

LEGAL PROCEEDINGS

As disclosed in Note 10, "Commitments and Contingencies," to the condensed consolidated financial statements, we have potential exposure to certain legal and regulatory matters.

CONTINGENT PAYMENTS

We normally structure acquisitions to include earnout payments, which are contingent upon the acquired entity reaching certain revenue and operating earnings targets. The amount of the contingent payments and length of the earnout period varies for each acquisition, and the ultimate payments when made will vary, as they are dependent on future events. Based on projected levels of revenues and operating earnings, additional payments after June 30, 2006

36

under existing earnout agreements would approximate \$2.2 million through 2009, as follows: 2006 - none; 2007 - none; 2008 - \$2,094,000; and 2009 - \$150,000.

At June 30, 2006, we have committed \$14.6 million under letters of credit to satisfy certain of our own contractual requirements. As noted below in our discussion of Debt Covenants, these letters of credit commitments are a component of our \$70.0 million Amended Revolving Credit Agreement.

CONTRACTUAL OBLIGATIONS

As disclosed in Note 13 to our condensed consolidated financial statements contained in this Form 10-Q, we entered into a new operating lease on August 1, 2006 for approximately 160,000 square feet of office space in Atlanta, Georgia to be used as our future corporate headquarters. We will begin utilizing this leased space sometime in the first quarter of 2007, after construction of leasehold improvements. The minimum monthly lease payments vary over the term of the lease. The lessor will also provide a leasehold improvement allowance of

Edgar Filing: CRAWFORD & CO - Form 10-Q

approximately \$4.9 million.

The impact of these minimum lease payments on our liquidity and cash flow in future periods is as follows:

		Payments Due by Years			
		2007	2010	2013	
		through	through	through	
(in thousands)	2006	2009	2012	2017	Total
	\$1,028	\$10,328	\$11,204	\$18,964	\$41,524

DEBT COVENANTS

In October 2003, we entered into a \$70.0 million revolving credit line pursuant to a revolving credit agreement (the "Revolving Credit Agreement") and issued \$50.0 million in 6.08% senior notes pursuant to a notes purchase agreement (the "Notes Purchase Agreement"). As of June 30, 2006, there was \$27.5 million outstanding on the revolving credit line, with an average variable interest rate of 6.06%. In addition, letters of credit of \$14.6 million were also committed under this revolving credit line. Our short-term borrowings at June 30, 2006 also include \$2.7 million outstanding under bank overdraft facilities. The \$50.0 million senior notes have scheduled principal repayments of approximately \$5.6 million beginning October 2006 and continuing semi-annually through 2009 with the final payment due October 2010. The stock of Crawford & Company International, Inc. is pledged as security under these agreements and our U.S. subsidiaries have guaranteed our obligations under these agreements.

On September 30, 2005, we executed a First Amended and Restated Credit Agreement ("Amended Revolving Credit Agreement") to our existing \$70.0 million Revolving Credit Agreement dated October 2003. The Amended Revolving Credit Agreement does not change the dollar amount of the credit line or interest rate terms. The expiration date was extended to September 29, 2010. On June 16, 2006, we executed Amendment No. 1 to the Amended

37

Revolving Credit Agreement, which amended certain terms relating to the sale and leaseback of real estate that was used as our headquarters in Atlanta, Georgia.

On September 30, 2005, we also executed a Waiver and Amendment (the "Amended Note Purchase Agreement") to our original Note Purchase Agreement of October 2003 involving our \$50.0 million 6.08% senior notes payable. The Amended Note Purchase Agreement does not change the interest rate, payment schedule, or maturity date of the 6.08% senior notes. On June 16, 2006, we executed Waiver and Amendment No. 2 to the Amended Note Purchase Agreement, which amended certain terms relating to the sale and leaseback of real estate that was used as our headquarters in Atlanta, Georgia.

Both the original Revolving Credit Agreement and the original Note Purchase Agreement contained various provisions which required us to maintain defined leverage ratios, fixed charge coverage ratios, and minimum net worth thresholds.

As a result of the amended agreements, the material provisions in the original

Edgar Filing: CRAWFORD & CO - Form 10-Q

agreements were modified at September 30, 2005 as follows:

- 1) We must maintain, on a rolling four quarter basis, a leverage ratio of consolidated debt to earnings before interest expense, income taxes, depreciation, amortization, certain non-recurring charges, and capitalization of internally developed software costs ("EBITDA") of no more than 2.75 times EBITDA. This ratio is reduced to 2.50 times EBITDA effective for the quarter ended September 30, 2006, and to 2.25 times EDITDA effective for the quarter ended September 30, 2007.
- 2) We must also maintain, on a rolling four quarter basis, a fixed charge coverage ratio of EBITDA plus lease expenses ("EBITDAR") to total fixed charges, consisting of interest expense and lease expense, of no less than 1.5 times fixed charges through the quarter ended September 30, 2007. Effective the quarter ended December 31, 2007, this ratio changes to no less than 1.75 times fixed charges.
- 3) We are also required to maintain a minimum net worth equal to \$167,200,000 plus 50% of our cumulative positive consolidated net income earned after June 30, 2005, plus 100% of the net proceeds from any equity offering, subject to terms and conditions. For purposes of determining minimum net worth, any non-cash adjustments after June 30, 2005 related to our pension liabilities, goodwill, or foreign currency translation are excluded.
- 4) During 2006, we are authorized to pay dividends to holders of our common stock up to an amount not to exceed the sum of 2005 consolidated net income plus \$4,000,000. All other original provisions regarding the payments of dividends during the terms of these original and amended agreements remain unchanged.
- 5) Prior to September 30, 2006, we were allowed to sell, or sell and lease back, the real estate that comprises our corporate headquarters in Atlanta, Georgia.

We were in compliance with these debt covenants as of June 30, 2006. If we do not meet the covenant requirements in the future, we would be in default under these agreements. In such an event, we would need to obtain a waiver of the default or repay the outstanding indebtedness under the agreements. If we could not obtain a waiver on satisfactory terms, we could be

38

required to renegotiate this indebtedness. Any such renegotiations could result in less favorable terms, including higher interest rates and accelerated payments. Based upon our projected operating results for the remainder of 2006, we expect to remain in compliance with the financial covenants contained in the Amended Revolving Credit Agreement and the Amended Notes Purchase Agreement throughout 2006. However, there can be no assurance that our actual financial results will match our planned results or that we will not violate the covenants.

PENDING ADOPTION OF RECENTLY ISSUED ACCOUNTING STANDARD

Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), is effective for fiscal years beginning after December 15, 2006. FIN 48 will be applicable to all routine and nonroutine positions for taxes accounted for under SFAS 109, "Accounting for Income Taxes," by creating a single model to address uncertainties in tax

Edgar Filing: CRAWFORD & CO - Form 10-Q

positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. In addition, FIN 48 removes income taxes from the scope of SFAS 5, "Accounting for Contingencies." Due to the recent issuance of FIN 48, we are still evaluating the potential impact that FIN 48 will have on our consolidated financial position, operating results, and cash flows.

PENDING LEGISLATION

We are aware of pending U.S. legislation that impacts the Pension Benefit Guaranty Corporation ("PBGC") and the Employee Retirement Income Security Act of 1974 ("ERISA") as they relate to defined benefit pension plans in the U.S. Our frozen U.S. defined benefit pension plan ("U.S. Plan") is regulated by both the PBGC and ERISA. This legislation has been approved by Congress, but it has not been signed into law by the President. If signed into law by the President, this legislation may alter future pension funding requirements and actuarial formulas used by sponsors of defined benefit pension plans that are regulated by the PBGC and ERISA.

Under existing PBGC and ERISA regulations, our U.S. Plan is significantly underfunded based on the long-term interest rates used to discount our pension liabilities as of January 1, 2006. We are currently not required to make any contributions into our U.S. Plan during 2006. However, if the pending U.S. legislation is not signed into law by September 15, 2006, we anticipate making a discretionary \$14.3 million cash contribution to our U.S. Plan during the 2006 third quarter in order to ensure it remains at an 80% funding level as measured under existing PBGC and ERISA regulations. If this contribution is made, it will not have any impact on the amount of periodic pension cost recognized in our consolidated statement of income for any period in 2006.

If the pending legislation is signed into law on or before September 15, 2006, our U.S. Plan will be more than 80% funded based on the long-term interest rates used to discount pension liabilities as contained in the pending legislation and no discretionary cash contribution is expected to be made during 2006.

We are also evaluating the impact that this pending legislation may have on our U.S. Plan subsequent to 2006.

39

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since the filing of our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Interim Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures,

Edgar Filing: CRAWFORD & CO - Form 10-Q

which, by their nature, can provide only reasonable assurance regarding management's control objectives. The Company's management, including the Chief Executive Officer and Interim Chief Financial Officer, does not expect that our disclosure controls can prevent all possible errors or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations in all control systems, including the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Additionally, controls can be circumvented by the individual acts of one or more persons. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and, while our disclosure controls and procedures are designed to be effective under circumstances where they should reasonably be expected to operate effectively, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in any control system, misstatements due to possible errors or fraud may occur and not be detected.

As of the end of the period covered by this report, we performed an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Interim Chief Financial Officer, of the effectiveness of the design and operations of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(b) and 15d-15(b). Based upon the foregoing, the Chief Executive Officer along with the Interim Chief Financial Officer concluded that our disclosure controls and procedures are effective at providing reasonable assurance that all material information relating to the Company (including consolidated subsidiaries) required to be included in our Exchange Act reports is reported in a timely manner.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

We have identified no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

40

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes since the filing of our Form 10-K for the year ended December 31, 2005.

ITEM 1. A. RISK FACTORS

There have been no significant changes for those risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2005.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of shareholders was held on May 2, 2006 at our company headquarters in Atlanta, Georgia. All director nominees and management proposals were approved by our shareholders, as detailed below. There were no shareholder proposals.

- (a) Votes regarding the election of the persons named below as Directors were as follows:

Edgar Filing: CRAWFORD & CO - Form 10-Q

	For -----	Withheld -----
Jesse C. Crawford	23,588,054	364,206
Thomas W. Crawford	23,596,761	355,499
James D. Edwards	23,704,927	247,333
Robert T. Johnson	23,702,019	250,241
J. Hicks Lanier	22,967,813	984,447
Larry L. Prince	23,590,948	361,312
Clarence H. Ridley	21,910,620	2,041,640
P. George Benson	23,705,478	246,782
E. Jenner Wood, III	23,673,893	278,367

- (b) Votes regarding ratification of the appointment of Ernst & Young LLP as independent auditors of the Company to serve for the fiscal year ending December 31, 2006 were as follows:

For	23,901,367
Against	40,920
Abstentions	9,973

- (c) Votes regarding an increase in the number of shares of Class A Common stock available for issuance under the Crawford & Company U.K. Sharesave Scheme by an additional 500,000 shares were as follows:

For	21,571,691
Against	113,717
Abstention:	11,026
Broker Non-votes	2,255,826

ITEM 6. EXHIBITS

See Index to Exhibits beginning on page 43.

41

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CRAWFORD & COMPANY
(Registrant)

Date: August 8, 2006

/s/ Thomas W. Crawford

Thomas W. Crawford

Edgar Filing: CRAWFORD & CO - Form 10-Q

President and Chief Executive Officer
(Principal Executive Officer) and
Director

Date: August 8, 2006

/s/ W. Bruce Swain, Jr.

W. Bruce Swain, Jr.
Senior Vice President, Controller and
Interim
Chief Financial Officer (Principal
Financial Officer and Principal
Accounting Officer)

42

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
3.1	Restated Articles of Incorporation of the Registrant, as amended April 23, 1991 (incorporated by reference to Exhibit 4.1 to the Registrant's Form S-8 filed with the Securities and Exchange Commission on June 6, 2005)
3.2	Restated By-laws of the Registrant, as amended (incorporated by reference to Exhibit 3.1 to the Registrant's quarterly report on Form 10-Q for the quarter ended March 31, 2004)
10.1	Amendment to Amended and Restated Supplemental Executive Retirement Plan, dated April 14, 2006
10.2	Amended and Restated Purchase and Sales Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission June 16, 2006)
10.3	Amendment No. 1 to First Amended and Restated Credit Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Commission June 22, 2006)
10.4	Waiver and Amendment No. 2 to Note Purchase Agreement (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission June 22, 2006)
10.5	Lease Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission August 1, 2006)
15	Letter from Ernst & Young LLP
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of principal financial officer pursuant to Section 302

Edgar Filing: CRAWFORD & CO - Form 10-Q

of the Sarbanes-Oxley Act of 2002

- 32.1 Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

43

INDEX TO EXHIBITS, continued

- 32.2 Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

44