

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2016
Commission file number: 000-24049

CRA International, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts **04-2372210**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
200 Clarendon Street, Boston, MA **02116-5092**
(Address of principal executive offices) (Zip code)

617-425-3000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, no par value

Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting
company)

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

The aggregate market value of the stock held by non-affiliates of the registrant as of July 2, 2016, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing sale price of \$25.35 as quoted on the NASDAQ Global Select Market as of the last trading day before that date, was approximately \$201.7 million. Outstanding shares of common stock beneficially owned by executive officers and directors of the registrant and certain related entities have been excluded from this computation because these persons may be deemed to be affiliates. The fact that these persons have been deemed affiliates for purposes of this computation should not be considered a conclusive determination for any other purpose.

As of March 10, 2017, CRA had outstanding 8,543,170 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required for Part III of this annual report is incorporated by reference from the registrant's definitive proxy statement for the 2017 annual meeting of its shareholders to be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended December 31, 2016.

CRA INTERNATIONAL, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED December 31, 2016

TABLE OF CONTENTS

		<u>Page</u>
PART I		
ITEM 1	BUSINESS	2
ITEM 1A	RISK FACTORS	12
ITEM 1B	UNRESOLVED STAFF COMMENTS	22
ITEM 2	PROPERTIES	22
ITEM 3	LEGAL PROCEEDINGS	22
ITEM 4	MINE SAFETY DISCLOSURES	22
PART II		
ITEM 5	MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	23
ITEM 6	SELECTED FINANCIAL DATA	26
ITEM 7	MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	27
ITEM 7A	QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK ..	43
ITEM 8	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	44
ITEM 9	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	44
ITEM 9A	CONTROLS AND PROCEDURES	44
ITEM 9B	OTHER INFORMATION	46
PART III		
ITEM 10	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE ...	48
ITEM 11	EXECUTIVE COMPENSATION	48
ITEM 12	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS	48
ITEM 13	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	48
ITEM 14	PRINCIPAL ACCOUNTING FEES AND SERVICES	48
PART IV		
ITEM 15	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	49
	SIGNATURES	50

PART I

Item 1—*Business*

Forward-Looking Statements

Except for historical facts, the statements in this annual report are forward-looking statements. Forward-looking statements are merely our current predictions of future events. These statements are inherently uncertain, and actual events could differ materially from our predictions. Important factors that could cause actual events to vary from our predictions include those discussed in this annual report under the heading “Risk Factors.” We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to review carefully the risk factors described in this annual report and in the other documents that we file with the Securities and Exchange Commission, or SEC. You can read these documents at www.sec.gov.

Additional Available Information

Our principal internet address is www.crai.com. Our website provides a link to a third-party website through which our annual, quarterly, and current reports, and amendments to those reports, are available free of charge. We believe these reports are made available as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. We do not maintain, or provide any information directly to, the third-party website, and we do not check its accuracy.

Our website also includes information about our corporate governance practices. The Investor Relations page of our website provides a link to a web page where you can obtain a copy of our code of business conduct and ethics applicable to our principal executive officer, principal financial officer, and principal accounting officer. We intend to make required disclosures of amendments to our code of business conduct and ethics, or waivers of a provision of our code of business conduct and ethics, on the Corporate Governance Documents page linked from the Investor Relations page of our website.

Fiscal Year

Our fiscal years periodically contain 53 weeks rather than 52 weeks. Fiscal 2016 and fiscal 2015 were both 52-week years and fiscal 2014 was a 53-week year.

Introduction

We are a leading global consulting firm specializing in providing economic, financial and management consulting services. We advise clients on economic and financial matters pertaining to litigation and regulatory proceedings, and guide corporations through critical business strategy and performance-related issues. Since 1965, we have been engaged by clients for our unique combination of functional expertise and industry knowledge, and for our objective solutions to complex problems. We combine economic and financial analysis with expertise in litigation and regulatory support, business strategy and planning, market and demand forecasting, and policy analysis. We are often retained in high-stakes matters, such as multibillion-dollar mergers and acquisitions, new product introductions, major strategy and capital investment decisions, and complex litigation, the outcomes of which often have significant consequences for the parties involved. These matters often require independent analysis and, as a result, the parties involved must rely on outside experts. Our analytical strength enables us to reach objective, factual conclusions that help clients make important business and policy decisions and resolve critical disputes. Clients turn to us because we can provide highly credentialed and experienced economic and finance experts to address critical, tough assignments, with high-stakes outcomes.

We offer consulting services in two broad areas: litigation, regulatory, and financial consulting and management consulting. These two areas represented approximately 100% of our consolidated revenues for fiscal 2016. Less than 1% of our consolidated revenues for 2016 came from our majority-owned GNU123 Liquidating Corporation subsidiary, formerly known as NeuCo, Inc. (“GNU”). We provide our consulting services primarily through our highly credentialed and experienced staff of employee

consultants. Our employee consultants have backgrounds in a wide range of disciplines, including economics, business, corporate finance, materials sciences, accounting, and engineering. They combine outstanding intellectual acumen with practical experience and in-depth understanding of industries and markets. To enhance the expertise we provide to our clients, we maintain close working relationships with a select group of renowned academic and industry non-employee experts.

Our business is diversified across multiple dimensions, including service offerings and vertical industry coverage, as well as areas of functional expertise, client base, and geography. We believe this diversification reduces our dependence on any particular market, industry, or geographic area.

We provide consulting services to corporate clients and attorneys in a wide range of litigation and regulatory proceedings, providing high-quality research and analysis, expert testimony, and comprehensive support in litigation and regulatory proceedings in all areas of finance, accounting, economics, insurance, and forensic accounting and investigations. We also use our expertise in economics, finance, and business to offer law firms, businesses, and government agencies services related to class certification, damages analysis, expert reports and testimony, regulatory analysis, strategy development, valuation of tangible and intangible assets, risk management, and transaction support. In our management consulting services, we use our expertise in economics, finance, and business analysis to offer our clients such services as strategy development, performance improvement, corporate strategy and portfolio analysis, estimation of market demand, new product pricing strategies, valuation of intellectual property and other assets, assessment of competitors' actions, and analysis of new sources of supply. Our analytical expertise in advanced economic and financial methods is complemented by our in-depth expertise in specific industries, including agriculture; banking and capital markets; chemicals; communications and media; consumer products; energy; entertainment; financial services; health care; insurance; life sciences; manufacturing; metals, mining, and materials; oil and gas; real estate; retail; sports; telecommunications; transportation; and technology.

We have completed thousands of engagements for clients around the world, including domestic and foreign companies; federal, state, and local domestic government agencies; governments of foreign countries; public and private utilities; and national and international trade associations. We also work with many of the world's leading law firms. We experience a high level of repeat business.

We deliver our services through an international network of coordinated offices. Headquartered in Boston, Massachusetts, we have offices throughout North America and Europe.

Industry Overview

Businesses are operating in an increasingly complex economic, legal, and regulatory environment. Our changing world economy has created immense challenges and opportunities for businesses. Companies across industry sectors are seeking new strategies appropriate for the current economic environment, as well as greater operational efficiencies. To accomplish these objectives, they must constantly gather, analyze, and use information wisely to assure that business decisions are well-informed. In addition, as markets have become global, companies have the opportunity to expand their presence throughout the world, which can expose them to increased competition and the uncertainties of foreign operations. Further, companies are increasingly relying on technological and business innovations to improve efficiency, thus increasing the importance of strategically analyzing their businesses and developing and protecting new technology. The increasing complexity and changing nature of the business environment are also forcing governments to modify their regulatory strategies. These constant changes in the regulatory environment and the pro-regulatory stance in the U.S. have led to frequent litigation and interaction with government agencies, as companies attempt to interpret and react to the implications of this changing environment. Furthermore, as the general business and regulatory environment becomes more complex, corporate litigation has also become more complicated, protracted, expensive, and important to the parties involved.

As a result, companies are increasingly relying on sophisticated economic and financial analysis to solve complex problems and improve decision-making. Economic and financial models provide the tools

necessary to analyze a variety of issues confronting businesses, such as interpretation of sales data, effects of price changes, valuation of assets, assessment of competitors' activities, evaluation of new products, and analysis of supply limitations. Governments are also relying, to an increasing extent, on economic and finance theory to measure the effects of anticompetitive activity, evaluate mergers and acquisitions, change regulations, implement auctions to allocate resources, and establish transfer pricing rules. Finally, litigants and law firms are using economic and finance theory to help determine liability and to calculate damages in complex and high-stakes litigation. As the need for complex economic and financial analysis becomes more widespread, companies and governments are turning to outside consulting firms, such as ours, for access to the independent and specialized expertise, experience, and prestige that are not available to them internally. In addition, companies' strategic, organizational, and operational problems have become more acute as a result of the economic environment, and companies are relying on management consultants for help in analyzing, addressing, and solving strategic business problems and performance-related issues involving market supply and demand dynamics, supply chain and sourcing, pricing, capital allocation, technology management, portfolio positioning, risk management, merger integration, and improving shareholder value.

Competitive Strengths

Since 1965, we have been committed to providing sophisticated consulting services to our clients. We believe that the following factors have been critical to our success.

Strong Reputation for High-Quality Consulting; High Level of Repeat Business. Since 1965, we have been a leader in providing sophisticated economic analysis and original, authoritative advice to clients involved in complex litigation and regulatory proceedings, and we also provide management consulting services to companies facing strategic, organizational, and operational challenges. As a result, we believe we have established a strong reputation among leading law firms and business clients as a preferred source of expertise in economics, finance, business, and management consulting, as evidenced by our high level of repeat business. In addition, we believe our significant name recognition, developed as a result of our work on many high-profile litigation and regulatory engagements, has enhanced the development of our management consulting practice.

Highly Educated, Experienced, and Versatile Consulting Staff. We believe our most important asset is our base of employee consultants, particularly our senior employee consultants. As of December 31, 2016, we employed 540 consultants, which consisted of 389 senior staff and 151 junior staff. Approximately three fourths of our senior staff has a doctorate or other advanced degree. We are extremely selective in our hiring of consultants, recruiting from leading universities, industry, and government. Many of our employee consultants are nationally or internationally recognized as experts in their respective fields and have published scholarly articles, lectured extensively, and been quoted in the press. In addition to their expertise in a particular field, most of our employee consultants are able to apply their skills across numerous practice areas. This flexibility in staffing engagements is critical to our ability to apply our resources to meet the demands of our clients. As a result, we seek to hire consultants who not only have strong analytical skills, but who are also creative, intellectually curious, and driven to develop expertise in new practice areas and industries.

International Presence. We deliver our services through an international network of coordinated offices. Many of our clients are multinational firms with issues that cross international boundaries, and we believe our international presence provides us with an advantage to address complex issues that span countries and continents. Our international presence also gives us access to many of the leading experts around the world on a variety of issues, allowing us to expand our knowledge base and areas of functional expertise.

Diversified Business. Our business is diversified across multiple dimensions, including service offerings, vertical industry coverage, areas of functional expertise, client base, and geography. By maintaining expertise in multiple industries, we are able to offer clients creative and pragmatic advice tailored to their specific markets. By offering clients litigation, regulatory, financial, and management

consulting services, we are able to satisfy an array of client needs, ranging from expert testimony for complex lawsuits to designing global business strategies. This broad range of expertise enables us to take an interdisciplinary approach to certain engagements, combining economists and experts in one area with specialists in other disciplines. We believe this diversification reduces our dependence on any particular market, industry, or geographic area. Furthermore, our litigation, regulatory, and financial consulting businesses are driven primarily by regulatory changes and high-stakes legal proceedings. Our diversity also enhances our expertise and the range of issues that we can address on behalf of clients.

Integrated Business. We manage our business on an integrated basis through our international network of offices and areas of functional expertise. Many of our practice areas are represented in several of our offices and are managed across geographic borders. We view these cross-border practices as integral to our success and key to our management approach. Our practices share not only staff, but also consulting approaches and marketing strategies. When we acquire companies, our practice is to rapidly integrate systems, procedures, and people into our business platform. In addition to sharing our intellectual property assets globally, we encourage geographic collaboration among our practices by including each consultant's overall contribution to our practices as a factor in determining the consultant's annual bonus.

Diversified Client Base. We have completed thousands of engagements for clients in a broad range of industries around the world. Our clients are major firms, and national and international law firms representing such clients, across a multitude of industries that include agriculture; banking and capital markets; chemicals; communications and media; consumer products; energy; entertainment; financial services; health care; insurance; life sciences; manufacturing; metals, mining, and materials; oil and gas; real estate; retail; sports; telecommunications; transportation; and technology.

Established Corporate Culture. Our success results in part from our established corporate culture. We believe we attract consultants because of our approximately 50-year history, our strong reputation, the credentials, experience, and reputations of our employee consultants, the opportunity to work on an array of matters with a broad group of renowned non-employee experts, and our collegial atmosphere where teamwork and collaboration are emphasized and valued by many clients.

Access to Leading Academic and Industry Experts. To enhance the expertise we provide to our clients and the depth and breadth of our insights, we maintain close working relationships with a select group of non-employee experts. Depending on client needs, we use non-employee experts for their specialized expertise, assistance in conceptual problem-solving, and expert witness testimony. We work regularly with renowned professors at such institutions as the University of Chicago, the University of California at Berkeley, Yale University, Georgetown University, the University of East Anglia, Northwestern University, the University of Toronto, Harvard University, the Massachusetts Institute of Technology, Texas A&M University, and Brigham Young University, and other leading universities. These experts also generate business for us and provide us access to other leading academic and industry experts. By establishing affiliations with these prestigious experts, we further enhance our reputation as a leading source of sophisticated economic and financial analysis.

Services

We offer consulting services in two broad areas: litigation, regulatory, and financial consulting and management consulting.

Litigation, Regulatory, and Financial Consulting

In our litigation, regulatory, and financial consulting practices, we typically work closely with law firms on behalf of one or more companies involved in litigation or regulatory proceedings in such areas as antitrust, damages, and labor and employment. Many of the lawsuits and regulatory proceedings in which we are involved are critical assignments with high-stakes outcomes, such as obtaining regulatory approval of a pending merger or analyzing possible damages awards in a class action case. The ability to formulate and effectively communicate powerful economic and financial arguments to courts and

regulatory agencies is often critical to a successful outcome in litigation and regulatory proceedings. Our consultants combine analytical rigor with practical experience and in-depth understanding of industries and markets. Our analytical strength enables us to reach objective, factual conclusions that help our clients make important business and policy decisions and resolve critical disputes. Our consultants work with law firms, corporate counsel, and regulatory agencies to assist in developing the theory of the case and in preparing the testimony of expert witnesses from among our employees, our non-employee experts, and others in academia. In addition, our consultants provide general litigation support, including reviewing legal briefs and assisting in the appeals process.

The following is a summary of the areas of functional expertise that we offer in litigation, regulatory, and financial consulting engagements. We provide services, such as economic expertise, analyses, and expert testimony, in these areas:

<u>Areas of Functional Expertise</u>	<u>Description of Area of Service</u>
Antitrust & Competition . . .	Antitrust litigation, including economic analysis of the competitive effects of alleged collusion and cartels, monopolization, abuse of dominance, monopsony, and vertical restrictions.
Damages & Valuation	Disputes involving lost profits, breach of contract, purchase price, valuation, business interruption, product liability, and fraud, among other damages claims. Calculating damages, providing expert testimony, and critiquing opposing experts' damages analyses in matters involving disputes in antitrust; intellectual property; securities and other financial market issues; insolvency; property values; contract; employment discrimination; product liability; environmental contamination; and purchase price. Supporting clients with broader corporate valuation services, providing pre-trial evaluations of damages claims and methodologies, and evaluating proposed settlements in class action and other cases.
Financial Accounting & Valuation	Commercial and shareholder disputes; corporate finance damages advise; corporate investigations; due diligence; financial accounting; valuation and litigation support and expert testimony, including both liability and damages.
Financial Economics	Matters pertaining to financial markets, including regulatory analyses and litigation support for financial institutions in areas of fair lending compliance, credit risk, credit scoring, consumer and mortgage lending, housing markets, international mortgage markets, and securitization. Analyses of valuations and estimates of damages associated with breaches of contract, national laws, and international treaties and the effects of market rules, processes, and contracts on prices and competition.
Forensic & Cyber Investigations	Forensic accounting and analysis of complex accounting issues; fraud, corruption, bribery and embezzlement investigations; white collar defense; cybercrime, data breach and theft of trade secrets investigations; computer and other digital forensic analyses; actionable business intelligence and reputational due diligence; and other independent professional services that help clients preserve their reputation and support their commitment to integrity.
Insurance Economics	Matters pertaining to advising insurers, regulators, and legislators in management, insurance products, and litigation and regulation.

<u>Areas of Functional Expertise</u>	<u>Description of Area of Service</u>
Intellectual Property	Matters pertaining to all types of intellectual property assets including valuation, litigation, transaction and strategic advisory services, patents, trade secrets, copyrights, and trademarks as well as economic damages in intellectual property litigation, valuations of intellectual property assets for strategic and regulatory purposes, and transactional advisory services for licensing and other intellectual property-rich transactions.
International Arbitration . . .	International arbitration cases brought under bilateral investment treaties and arbitration clauses in contracts between firms. Assessing causation and quantifying damages using sophisticated modeling and analytical techniques and presenting findings to arbitration authorities.
Labor & Employment	All facets of employment litigation including equal employment opportunity claims under Title VII, the Age Discrimination in Employment Act, the Equal Pay Act, and the Americans with Disabilities Act. Providing expert witness and litigation support services, conducting proactive analyses of employment and contracting practices, monitoring consent decrees and settlement agreements, designing information systems to track relevant employment data, and analyzing liability and assessing damages under the Fair Labor Standards Act, California overtime laws, and state-specific wage and hour laws.
Mergers & Acquisitions	Assisting clients in obtaining domestic and foreign regulatory approvals in proceedings before government agencies, such as the U.S. Federal Trade Commission, the U.S. Department of Justice, the Merger Task Force at the European Commission, and the Canadian Competition Bureau. Analyses include simulating the effects of mergers on prices, estimating demand elasticities, designing and administering customer and consumer surveys, and studying possible acquisition-related synergies.
Regulatory Economics & Compliance	Regulatory proceedings and assisting clients in understanding and mitigating regulatory risks and exposures, preparing policy studies that help develop the basis for sound regulatory policy, drafting regulatory filings, and advising on regulations pertaining to environmental protection, employment, and health and safety.
Securities & Financial Markets	Application of financial economics and accounting to complex litigation and business problems in such areas as securities litigation; securities markets and financial institutions; valuation and damages; and other financial litigation.
Transfer Pricing	All phases of the tax cycle, including planning, documentation, and tax valuation. Also includes audit defense and support in advanced pricing agreements, alternative dispute resolution, and litigation in proceedings involving the Internal Revenue Service, the Tax Division of the U.S. Department of Justice, state and municipal tax authorities, and foreign tax authorities.

Management Consulting

Our management consulting practices offer a unique mix of industry and functional expertise to help companies address and solve their strategic, organizational, and operational business problems. We advise clients in a broad range of industries on how to succeed in uncertain, rapidly-changing environments by generating growth, creating value, and enhancing shareholder wealth.

Additionally, we challenge clients to develop fresh approaches by sharing industry insights, focusing on facts, and questioning tradition. We support clients in implementation by setting priorities, focusing resources, and aligning operations, and we get results by helping clients make distinctive, substantial improvements in their organizations' performance.

The following is a summary of the areas of functional expertise that we offer in management consulting.

<u>Areas of Functional Expertise</u>	<u>Description of Area of Service</u>
Auctions & Competitive	
Bidding	Providing auction and market design, implementation, and monitoring services, as well as bidding support services, for businesses, industry organizations, and governments in various industries around the world, including commodities, energy and utilities, telecommunications, transportation, natural resources, and other industries.
Corporate & Business	
Strategy	Advising on business strategy, corporate revitalizations, and organizational effectiveness by bringing new ways of thinking to companies and new ways of working to develop better strategies over time and identifying the highest-value opportunities that address critical challenges and transform business. Advising chief executive officers and executive management teams on corporate and business unit strategy, market analysis, portfolio management, pricing strategy, and product positioning. Areas of expertise include strategy, execution, organic growth, growth through acquisition, productivity, risk management, leadership and organization, and managing for value.
Enterprise Risk	
Management	Advising large financial institutions and corporations in areas of governance and strategy, process analytics, and technology related to risk management.
Environmental & Energy	
Strategy	Advising companies on the following: corporate strategy to address risks and uncertainties surrounding environmental policy developments; business models that adapt to future environmental policy; investment decision-making processes that account for environmental policy uncertainty; environmental strategic compliance options with regulations/legislation; emissions trading planning surrounding cap-and-trade policies; identification of business opportunities that could relate to environmental trends; and the economic and business issues surrounding clean and renewable energy, enterprise and asset management, global gas and liquefied natural gas services, and regulation and litigation.
Intellectual Property & Technology Management	
Advising top management, investors, and boards on technology strategy and planning, research and development management, commercialization, technology market evaluation, intellectual property management, and portfolio and resource management.	
Organization & Performance	
Improvement	Advising corporate clients in areas of revenue growth drivers; operating margin drivers; asset efficiency drivers; key enablers; and performance management and metrics.
Transaction Advisory	
Services	Advising business leaders, including buyers and sellers, in the areas of due diligence, mergers and acquisitions, private equity, and valuation.

Industry Expertise

We believe our ability to combine expertise in advanced economic and financial methods with in-depth knowledge of particular industries is one of our key competitive strengths. By maintaining expertise in certain industries, we provide clients practical advice tailored to their specific markets. This industry expertise, which we developed over decades of providing sophisticated consulting services to a diverse group of clients in many industries, differentiates us from many of our competitors. We believe that we have developed a strong reputation and substantial name recognition within specific industries, which has led to repeat business and new engagements from clients in those markets. While we provide services to clients in a wide variety of industries, we have particular expertise in the following industries:

- Agriculture
- Banking & Capital Markets
- Chemicals
- Communications & Media
- Consumer Products
- Energy
- Entertainment
- Financial Services
- Health Care
- Insurance
- Life Sciences
- Manufacturing
- Metals, Mining, & Materials
- Oil & Gas
- Real Estate
- Retail
- Sports
- Telecommunications
- Transportation
- Technology

Clients

We have completed thousands of engagements for clients around the world, including domestic and foreign corporations; federal, state, and local domestic government agencies; governments of foreign countries; public and private utilities; accounting firms; and national and international trade associations. Frequently, we work with major law firms who approach us on behalf of their clients. While we have particular expertise in a number of industries, we provide services to a diverse group of clients in a broad range of industries. Our policy is to keep the identities of our clients confidential unless our work for the client is already publicly disclosed. Our clients come from a broad range of industries, with no single client accounting for more than 5% of our revenues in any of fiscal 2016, fiscal 2015, or fiscal 2014.

We derived approximately 17%, 14%, and 15%, of consolidated revenues from fixed-price contracts in fiscal 2016, fiscal 2015, and fiscal 2014, respectively. These contracts are more common in our management consulting area, and would likely grow in number with expansion of that area. Revenues outside of the U.S. accounted for approximately 22%, 20%, and 22% of our total revenues in fiscal 2016, fiscal 2015, and fiscal 2014, respectively. See note 11 of our Notes to Consolidated Financial Statements for a breakdown of our revenue and long-lived assets by country.

Software Subsidiary

Please refer to the sections captioned “Principles of Consolidation” and “GNU Interest” in note 1 of our Notes to Consolidated Financial Statements contained in this Form 10-K for more details regarding our majority owned subsidiary GNU.

Human Capital

As of December 31, 2016, we employed 540 consultants, consisting of 389 senior staff and 151 junior staff. Approximately three-fourths of our senior staff has a doctorate or other advanced degree in addition to substantial management, technical, or industry expertise. We believe our financial results and reputation are directly related to the number and quality of our employee consultants.

We derive most of our revenues directly from the services provided by our employee consultants. Our employee consultants have backgrounds in many disciplines, including economics, business, corporate finance, accounting, materials sciences, life sciences, and engineering. We are highly selective in our hiring of consultants, recruiting primarily from a select group of leading universities and degree programs, industry, and government. We believe consultants choose to work for us because of our strong reputation; the credentials, experience, and reputations of our consultants; the opportunity to work on a diverse range of matters and with renowned non-employee experts; and our collegial atmosphere where teamwork and collaboration are emphasized and valued by many clients. We use a decentralized, team hiring approach. Our training and career development program for our employee consultants focuses on three areas: mentoring, seminars, and scheduled courses. This program is designed to complement on-the-job experience and an employee’s pursuit of his or her own career development. New employee consultants participate in a structured program in which they are partnered with an assigned mentor. Through our ongoing seminar program, outside speakers make presentations and conduct discussions with our employee consultants on various topics. In addition, employee consultants are expected to discuss significant projects and cases, present academic research papers or business articles, and outline new analytical techniques or marketing opportunities periodically at in-house seminars. We also provide scheduled courses designed to improve an employee’s professional skills, such as written and oral presentation, marketing techniques, and business development. We also encourage our employee consultants to pursue their academic interests by writing articles for economic, business, and other journals.

Many of our vice presidents have signed non-solicitation agreements, which generally prohibit the employee from soliciting our clients or soliciting or hiring our employees for one year or longer following termination of the person’s employment with us. We seek to align each vice president’s interest with our overall interests, and many of our strongest contributors have an equity interest in us.

We maintain a discretionary bonus program through which we grant performance-based bonuses to our officers and other employees. In fiscal 2007, our shareholders approved a performance-based cash incentive plan designed to preserve the deductibility of the compensation paid to our executive officers. In 2012, our Board of Directors amended this plan to extend its effective date until the annual meeting of our shareholders held in 2017, and in December 2016, our Board of Directors further amended this plan to facilitate the grant under it of service-based and performance-based cash awards as new components of our long-term incentive program, or “LTIP;” for our senior corporate leaders, practice leaders and key revenue generators. We initially implemented the LTIP in 2009 as a framework for grants made under our 2006 equity incentive plan and, until 2017, LTIP participants received a mixture of stock options, time-vesting restricted stock units, and performance-vesting restricted stock units. The

LTIP is designed to reward our senior corporate leaders, practice leaders and key revenue generators and provide them with the opportunity to share in the long-term growth of our business. The Compensation Committee of our Board of Directors is responsible for approving cash and equity grants under our LTIP, all other equity compensation grants, the total bonuses to be distributed under our discretion bonus program, establishing performance-based goals under these programs and plans each year, and determining the performance-based compensation earned each year by our executive officers under our cash incentive plan. Our chief executive officer, in his discretion and in consultation with the Compensation Committee of our Board of Directors, approves the discretionary bonuses to be granted to our other employees, based on recommendations of the various leaders supervising the employees' work.

In addition, we work closely with a select group of non-employee experts from leading universities and industry. These experts supplement the work of our employee consultants and generate business for us. We believe these experts choose to work with us because of the interesting and challenging nature of our work, the opportunity to work with our quality-oriented consultants, and the financially rewarding nature of the work. Several non-employee experts, generally comprising the more active of those with whom we work, have entered into restrictive covenants with us of varying lengths, which, in some cases, include noncompetition agreements.

Our revenues largely depend on the number of hours worked by our employee consultants. As a result, we experience certain seasonal effects that impact our revenue, such as holiday seasons and the summer vacation season.

Marketing and Business Development

We rely to a significant extent on the efforts of our employee consultants, particularly our vice presidents and principals, to market our services. We encourage our employee consultants to generate new business from both existing and new clients, and we reward our employee consultants with increased compensation and promotions for obtaining new business. In pursuing new business, our consultants emphasize our institutional reputation, experience, and client service, while also promoting the expertise of the particular employees who will work on the matter. Many of our consultants have published articles in industry, business, economic, legal, or scientific journals, and have made speeches and presentations at industry conferences and seminars, which serve as a means of attracting new business and enhancing their reputations. On occasion, employee consultants work with one or more non-employee experts to market our services. In addition, we rely upon business development professionals to ensure that the value of our litigation consulting service offerings is fully realized in the marketplace. They are focused on deepening and broadening client relationships with law firms and general counsels, ensuring that both existing and potential clients have access to our broad array of services, as well as helping to bring the best talent to any given assignment.

We supplement the personal marketing efforts of our employee consultants with firm-wide initiatives. We rely primarily on our reputation and client referrals for new business and undertake traditional marketing activities. We regularly organize seminars for existing and potential clients featuring panel members that include our employee consultants, non-employee experts, and leading government officials. We have an extensive set of brochures organized around our service areas, which describe our experience and capabilities. We also provide information about our services on our corporate website. We distribute publications to existing and potential clients highlighting emerging trends and noteworthy engagements. Because existing clients are an important source of repeat business and referrals, we communicate regularly with our existing clients to keep them informed of developments that affect their markets and industries.

We derive the majority of new business from new engagements from existing clients. We have worked with leading law firms across the globe and believe we have developed a reputation among law firms as a preferred source of sophisticated economic advice for litigation and regulatory work. For our management consulting services, we also rely on referrals from existing clients, and supplement

referrals with a significant amount of direct marketing to new clients through conferences, seminars, publications, presentations, and direct solicitations.

It is important to us that we conduct business ethically and in accordance with industry standards and our own rigorous professional standards. We carefully consider the pursuit of each specific market, client, and engagement in light of these standards.

Competition

The market for economic and management consulting services is intensely competitive, highly fragmented, and subject to rapid change. In general, there are few barriers to entry into our markets, and we expect to face additional competition from new entrants into the economic and management consulting industries. In the litigation, regulatory, and financial consulting markets, we compete primarily with other economic consulting firms and individual academics. We believe the principal competitive factors in this market are reputation, analytical ability, industry expertise, size, and service. In the management consulting market, we compete primarily with other business and management consulting firms, specialized or industry-specific consulting firms, the consulting practices of large accounting firms, and the internal professional resources of existing and potential clients. We believe the principal competitive factors in this market are reputation, industry expertise, analytical ability, service, and price.

Item 1A—Risk Factors

Our operations are subject to a number of risks. You should carefully read and consider the following risk factors, together with all other information in this report, in evaluating our business. If any of these risks, or any risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition, and results of operations could be adversely affected. If that happens, the market price of our common stock could decline, and you may lose all or part of your investment.

We depend upon key employees to generate revenue

Our business consists primarily of the delivery of professional services, and, accordingly, our success depends heavily on the efforts, abilities, business generation capabilities, and project execution capabilities of our employee consultants. In particular, our employee consultants' personal relationships with our clients are a critical element in obtaining and maintaining client engagements. If we lose the services of any employee consultant or group of employee consultants, or if our employee consultants fail to generate business or otherwise fail to perform effectively, that loss or failure could adversely affect our revenues and results of operations. We do not have non-competition agreements with a majority of our employee consultants, and they can terminate their relationships with us at will and without notice. The non-competition and non-solicitation agreements that we have with some of our employee consultants offer us only limited protection and may not be enforceable in every jurisdiction. In the event that an employee leaves, some clients may decide that they prefer to continue working with the employee rather than with us. In the event an employee departs and acts in a way that we believe violates the employee's non-competition or non-solicitation agreement, we will consider any legal remedies we may have against such person on a case-by-case basis. We may decide that preserving cooperation and a professional relationship with the former employee or clients that worked with the employee, or other concerns, outweigh the benefits of any possible legal recovery.

Our business could suffer if we are unable to hire and retain additional qualified consultants as employees

Our business continually requires us to hire highly qualified, highly educated consultants as employees. Our failure to recruit and retain a significant number of qualified employee consultants could limit our ability to accept or complete engagements and adversely affect our revenues and results of operations. Relatively few potential employees meet our hiring criteria, and we face significant competition for these employees from our direct competitors, academic institutions, government

agencies, research firms, investment banking firms, and other enterprises. Many of these competing employers are able to offer potential employees greater compensation and benefits or more attractive lifestyle choices, career paths, or geographic locations than we can. Competition for these employee consultants has increased our labor costs, and a continuation of this trend could adversely affect our margins and results of operations.

Maintaining our professional reputation is crucial to our future success

Our ability to secure new engagements and hire qualified consultants as employees depends heavily on our overall reputation as well as the individual reputations of our employee consultants and principal non-employee experts. Because we obtain a majority of our new engagements from existing clients, any client that is dissatisfied with our performance on a single matter could seriously impair our ability to secure new engagements. Given the frequently high-profile nature of the matters on which we work, including work before and on behalf of government agencies, any factor that diminishes our reputation or the reputations of any of our employee consultants or non-employee experts could make it substantially more difficult for us to compete successfully for both new engagements and qualified consultants.

We depend on our non-employee experts

We depend on our relationships with our non-employee experts. We believe that these experts are highly regarded in their fields and that each offers a combination of knowledge, experience, and expertise that would be very difficult to replace. We also believe that we have been able to secure some engagements and attract some consultants in part because we can offer the services of these experts. Most of these experts can limit their relationships with us at any time for any reason. These reasons could include affiliations with universities with policies that prohibit accepting specified engagements, termination of exclusive relationships, the pursuit of other interests, and retirement.

In many cases we seek to include restrictive covenants in our agreements with our non-employee experts, which could include non-competition agreements, non-solicitation agreements and non-hire agreements. The limitation or termination of any of their relationships with us, or competition from any of them after these agreements expire, could harm our reputation, reduce our business opportunities and adversely affect our revenues and results of operations. The restrictive covenants that we may have with some of our non-employee experts offer us only limited protection and may not be enforceable in every jurisdiction. In the event that non-employee experts leave, clients working with these non-employee experts may decide that they prefer to continue working with them rather than with us. In the event a non-employee expert departs and acts in a way that we believe violates the expert's restrictive covenants we will consider any legal and equitable remedies we may have against such person on a case-by-case basis. We may decide that preserving cooperation and a professional relationship with the former non-employee expert or clients that worked with the non-employee expert, or other concerns, outweigh the benefits of any possible legal action or recovery.

To meet our long-term growth targets, we need to establish ongoing relationships with additional non-employee experts who have reputations as leading experts in their fields. We may be unable to establish relationships with any additional non-employee experts. In addition, any relationship that we do establish may not help us meet our objectives or generate the revenues or earnings that we anticipate.

Changes in global economic, business and political conditions could have a material adverse impact on our revenues, results of operations, and financial condition

Overall global economic, business and political conditions, as well as conditions specific to the industries we or our clients serve, can affect our clients' businesses and financial condition, their demand or ability to pay for our services, and the market for our services. These conditions, all of which are outside of our control, include merger and acquisition activity levels, the availability, cost and terms of credit, the state of the United States and global financial markets, the levels of litigation and

regulatory and administrative investigations and proceedings, and general economic and business conditions. In addition, many of our clients are in highly regulated industries, and regulatory and legislative changes affecting these industries could impact the market for our service offerings, render our current service offerings obsolete, or increase the competition among providers of these services. Although we are not able to predict the positive or negative effects that general changes in global economic, business and political conditions will have on our individual practice areas or our business as a whole, any specific changes in these conditions could have a material adverse impact on our revenues, results of operations and financial condition.

Our results of operations and consequently our business may be adversely affected if we are not able to maintain our current bill rates, compensation costs and/or utilization rate

Our revenues and profitability are largely based on the bill rates charged to our clients, compensation costs and the utilization of our consultants. We calculate utilization by dividing the total hours worked by our employee consultants on engagements during the measurement period by the total number of hours that our employee consultants were available to work during that period. If we are not able to maintain adequate bill rates for our services, maintain compensation costs or obtain appropriate utilization rates from our consultants, our results of operations may be adversely impacted. Bill rates, compensation costs and consultant utilization rates are affected by a number of factors, including:

- Our clients' perceptions of our ability to add value through our services;
- The market demand for our services;
- Our competitors' pricing of services and compensation levels;
- The market rate for consultant compensation;
- Our ability to redeploy consultants from completed client engagements to new client engagements; and
- Our ability to predict future demand for our services and maintain the appropriate staffing levels without significantly underutilizing consultants.

Our revenues, operating results and cash flows are likely to fluctuate

We experience fluctuations in our revenues, operating results and cash flows and expect that they will continue to occur in the future due to factors that are either within or outside of our control, including, but not limited to, the timing and duration of our client engagements, utilization of our employee consultants, the types of engagements we are working on at different times, the geographic locations of our clients or where the services are rendered, the length of billing and collection cycles, hiring, business and capital expenditures, share repurchases, dividends, debt repayments, and other general economic factors. We may also experience future fluctuations in our cash flows from operations because of increases in employee compensation, including changes to our incentive compensation structure and the timing of incentive payments, which we generally pay during the first quarter of each year, or hiring or retention payments or bonuses which are paid throughout the year. Also, the timing of future acquisitions and other investments and the cost of integrating them may cause fluctuations in our operating results and related cash flows.

Our failure to execute our business strategy or manage future growth successfully could adversely affect our revenues and results of operations

Any failure on our part to execute our business strategy or manage future growth successfully could adversely affect our revenues and results of operations. In the future, we could open offices in new geographic areas, including foreign locations, and expand our employee base as a result of internal growth and acquisitions. Opening and managing new offices often requires extensive management supervision and increases our overall selling, general, and administrative expenses. Expansion creates

new and increased management, consulting, and training responsibilities for our employee consultants. Expansion also increases the demands on our internal systems, procedures, and controls, and on our managerial, administrative, financial, marketing, and other resources. We depend heavily upon the managerial, operational, and administrative skills of our executive officers to manage our expansion and business strategy. New responsibilities and demands may adversely affect the overall quality of our work.

Competition from other litigation, regulatory, financial, and management consulting firms could hurt our business

The market for litigation, regulatory, financial, and management consulting services is intensely competitive, highly fragmented, and subject to rapid change. We may be unable to compete successfully with our existing competitors or with any new competitors. In general, there are few barriers to entry into our markets, and we expect to face additional competition from new entrants into the economic and management consulting industries. In the litigation, regulatory, and financial consulting markets, we compete primarily with other economic and financial consulting firms and individual academics. In the management consulting market, we compete primarily with other business and management consulting firms, specialized or industry-specific consulting firms, the consulting practices of large accounting firms, and the internal professional resources of existing and potential clients. Many of our competitors have national or international reputations, as well as significantly greater personnel, financial, managerial, technical, and marketing resources than we do, which could enhance their ability to respond more quickly to technological changes, finance acquisitions, and fund internal growth. Some of our competitors also have a significantly broader geographic presence and significantly more resources than we do.

Clients can terminate engagements with us at any time

Many of our engagements depend upon disputes, proceedings, or transactions that involve our clients. Our clients may decide at any time to seek to resolve the dispute or proceeding, abandon the transaction, or file for bankruptcy. Our engagements can therefore terminate suddenly and without advance notice to us. If an engagement is terminated unexpectedly, our employee consultants working on the engagement could be underutilized until we assign them to other projects. In addition, because much of our work is project-based rather than recurring in nature, our consultants' utilization depends on our ability to secure additional engagements on a continual basis. Accordingly, the termination or significant reduction in the scope of a single large engagement could reduce our utilization and have an immediate adverse impact on our revenues and results of operations.

Information or technology systems failures, or a compromise of our or our client's confidential or proprietary information, could have a material adverse effect on our reputation, business and results of operations

We rely upon information and technology infrastructure and systems to operate, manage and run our business and to provide services to our clients. This includes infrastructure and systems for receiving, storing, hosting, analyzing, transmitting and securing our and our clients' sensitive, confidential or proprietary information, including, but not limited to, health and other personally-identifiable information and commercial, financial and consumer data. Our ability to secure and maintain the confidentiality of this information is critical to our reputation and the success of our businesses. We may be affected by or subject to events that are out of our control, including, but not limited to, viruses, malicious software, worms, failures in our or our third party hosting sites' information and technology systems, disruptions in the Internet or electricity grids, natural disasters, terrorism and malicious attacks, and unauthorized intrusions by unknown third parties. Any of these events could disrupt our or our client's business operations or cause us or our clients to incur unanticipated losses and reputational damage, which could have a material adverse effect on our business and results of operations.

In addition, our or our clients' sensitive, confidential or proprietary information could be compromised, whether intentionally or unintentionally, by our employees, outside consultants, vendors, or rogue third-party "hackers" or enterprises. A breach or compromise of the security of our information technology systems or infrastructure, or our processes for securing sensitive, confidential or proprietary information, could result in the loss or misuse of this information. Any such loss or misuse could result in our suffering claims, fines, damages, losses or reputational damage, any of which could have a material adverse effect on our business and results of operations.

Potential conflicts of interests may preclude us from accepting some engagements

We provide our services primarily in connection with significant or complex transactions, disputes, or other matters that are usually adversarial or that involve sensitive client information. Our engagement by a client may preclude us from accepting engagements with the client's competitors or adversaries because of conflicts between their business interests or positions on disputed issues or other reasons. Accordingly, the nature of our business limits the number of both potential clients and potential engagements. Moreover, in many industries in which we provide consulting services, such as in the telecommunications industry, there has been a continuing trend toward business consolidations and strategic alliances. These consolidations and alliances reduce the number of potential clients for our services and increase the chances that we will be unable to continue some of our ongoing engagements or accept new engagements as a result of conflicts of interests.

We derive revenue from a limited number of large engagements

We derive a portion of our revenues from a limited number of large engagements. If we do not obtain a significant number of new large engagements each year, our business, financial condition, and results of operations could suffer. In general, the volume of work we perform for any particular client varies from year to year, and due to the specific engagement nature of our practice, a major client in one year may not hire us in the following year.

Our international operations create risks

Our international operations carry financial and business risks, including:

- currency fluctuations that could adversely affect our financial position and operating results;
- unexpected changes in trading policies, regulatory requirements, tariffs, and other barriers;
- restrictions on the repatriation of earnings;
- potentially adverse tax consequences, such as trapped foreign losses or changes in statutory tax rates;
- the impact of differences in the governmental, legal and regulatory environment in foreign jurisdictions, as well as U.S. laws and regulations related to our foreign operations;
- less stable political and economic environments; and
- civil disturbances or other catastrophic events that reduce business activity.

If our international revenues increase relative to our total revenues, these factors could have a more pronounced effect on our operating results.

Our entry into new lines of business could adversely affect our results of operations

If we attempt to develop new practice areas or lines of business outside our core litigation, regulatory, financial, and management consulting services, those efforts could harm our results of operations. Our efforts in new practice areas or new lines of business involve inherent risks, including risks associated with inexperience and competition from mature participants in the markets we enter.

Our inexperience in these new practice areas or lines of business may result in costly decisions that could harm our business.

Fluctuations in our quarterly revenues and results of operations could depress the market price of our common stock

We may experience significant fluctuations in our revenues and results of operations from one quarter to the next. If our revenues or net income in a quarter fall or falls below the expectations of securities analysts or investors, the market price of our common stock could fall significantly. Our results of operations in any quarter can fluctuate for many reasons, including:

- our ability to implement rate increases or maintain rates;
- the number, scope, and timing of ongoing client engagements;
- the extent to which we can reassign our employee consultants efficiently from one engagement to the next;
- the extent to which our employee consultants or clients take holiday, vacation, and sick time, including traditional seasonality related to summer vacation and holiday schedules;
- employee hiring;
- the extent of revenue realization or cost overruns;
- fluctuations in our provision for income taxes due to changes in income arising in various tax jurisdictions, valuation allowances, non-deductible expenses, and changes in estimates of our uncertain tax positions;
- fluctuations in interest rates;
- currency fluctuations; and
- collectability of receivables and unbilled work in process.

Because we generate most of our revenues from consulting services that we provide on an hourly fee basis, our revenues in any period are directly related to the number of our employee consultants, their billing rates, and the number of billable hours they work in that period. We have a limited ability to increase any of these factors in the short term. Accordingly, if we underutilize our consultants during one part of a fiscal period, we may be unable to compensate by augmenting revenues during another part of that period. In addition, we are occasionally unable to utilize fully any additional consultants that we hire, particularly in the quarter in which we hire them. Moreover, a significant majority of our operating expenses, primarily office rent and salaries, are fixed in the short term. As a result, any failure of our revenues to meet our projections in any quarter could have a disproportionate adverse effect on our net income. For these reasons, we believe our historical results of operations are not necessarily indicative of our future performance.

Our engagements may result in professional liability and we may be subject to other litigation, claims or assessments

Our services typically involve difficult analytical assignments and carry risks of professional and other liability. Many of our engagements involve matters that could have a severe impact on a client's business, and cause the client to lose significant amounts of money, or prevent the client from pursuing desirable business opportunities. Accordingly, if a client is dissatisfied with our performance, the client could threaten or bring litigation in order to recover damages or to contest its obligation to pay our fees. Litigation alleging that we performed negligently, disclosed client confidential information, or otherwise breached our obligations to the client could expose us to significant liabilities to our clients and other third parties and tarnish our reputation.

Despite our efforts to prevent litigation, from time to time we are party to various lawsuits, claims, or assessments in the ordinary course of business. Disputes may arise, for example, from business acquisitions, employment issues, regulatory actions, and other business transactions. The costs and outcome of any lawsuits or claims could have a material adverse effect on us.

Acquisitions may disrupt our operations or adversely affect our results

We regularly evaluate opportunities to acquire other businesses. The expenses we incur evaluating and pursuing acquisitions could adversely affect our results of operations. If we acquire a business, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the financial, operational, and other benefits we anticipate from these acquisitions or any other acquisition. Many potential acquisition targets do not meet our criteria, and, for those that do, we face significant competition for these acquisitions from our direct competitors, private equity funds, and other enterprises. Competition for future acquisition opportunities in our markets could increase the price we pay for businesses we acquire and could reduce the number of potential acquisition targets. Further, acquisitions may involve a number of special financial and business risks, such as:

- diversion of our management's time, attention, and resources;
- decreased utilization during the integration process;
- loss of key acquired personnel;
- increased costs to improve or coordinate managerial, operational, financial, and administrative systems, including compliance with the Sarbanes-Oxley Act of 2002;
- dilutive issuances of equity securities, including convertible debt securities;
- the assumption of legal liabilities;
- amortization of acquired intangible assets;
- potential write-offs related to the impairment of goodwill, including if our enterprise value declines below certain levels;
- difficulties in integrating diverse corporate cultures; and
- additional conflicts of interests.

Our clients may be unable or unwilling to pay us for our services

Our clients include some companies that may from time to time encounter financial difficulties, particularly during a downward trend in the economy, or may dispute the services we provide. If a client's financial difficulties become severe or a dispute arises, the client may be unwilling or unable to pay our invoices in the ordinary course of business, which could adversely affect collections of both our accounts receivable and unbilled services. On occasion, some of our clients have entered bankruptcy, which has prevented us from collecting amounts owed to us. The bankruptcy of a client with a substantial accounts receivable could have a material adverse effect on our financial condition and results of operations. Historically, a small number of clients who have paid sizable invoices have later declared bankruptcy, and a court determination that we were not properly entitled to any of those payments may result in repayment of some or all of them, which could adversely affect our financial condition and results of operations.

Additionally, from time to time, we may derive a significant amount of revenue from contracts with government agencies in the United States. Because of this, changes in federal government budgetary priorities could directly affect our financial performance. This could result in the cancellation of contracts and/or the incurrence of substantial costs without reimbursement under our contracts with the federal government, which could have a negative effect on our business, financial condition, results of operations and cash flows.

The market price of our common stock may be volatile

The market price of our common stock has fluctuated widely and may continue to do so. Many factors could cause the market price of our common stock to rise and fall. Some of these factors are:

- variations in our quarterly results of operations;
- changes in quarterly dividends;
- the hiring or departure of key personnel or non-employee experts;
- changes in our professional reputation;
- the introduction of new services by us or our competitors;
- acquisitions or strategic alliances involving us or our competitors;
- changes in accounting principles or methods or issues with our internal control over financial reporting;
- changes in estimates of our performance or recommendations by securities analysts;
- future sales of shares of common stock in the public market; and
- market conditions in the industry and the economy as a whole.

In addition, the stock market often experiences significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company's stock drops significantly, shareholders often institute securities class action litigation against that company. Any litigation against us could cause us to incur substantial costs, divert the time and attention of our management and other resources, or otherwise harm our business.

Our performance could be affected if employees and non-employee experts default on loans

We utilize forgivable loans and term loans with some of our employees and non-employee experts, other than our executive officers, as a way to attract and retain them. A portion of these loans is collateralized. Defaults under these loans could have a material adverse effect on our consolidated statements of operations, financial condition and liquidity.

Fluctuations in the types of service contracts we enter into may adversely impact revenue and results of operations

We derive a portion of our revenues from fixed-price contracts. These contracts are more common in our management consulting area, and would likely grow in number with expansion of that area. Fluctuations in the mix between time-and-material contracts, fixed-price contracts and arrangements with fees tied to performance-based criteria may result in fluctuations of revenue and results of operations. In addition, if we fail to estimate accurately the resources required for a fixed-price project or fail to satisfy our contractual obligations in a manner consistent with the project budget, we might generate a smaller profit or incur a loss on the project. On occasion, we have had to commit unanticipated additional resources to complete projects, and we may have to take similar action in the future, which could adversely affect our revenues and results of operations.

There can be no assurance that we will continue to declare cash dividends at all or in any particular amounts.

Our Board of Directors declared the first quarterly dividend on our common stock during 2016. Although we anticipate paying regular quarterly dividends on our common stock for the foreseeable future, the declaration of dividends is subject to the discretion of our Board of Directors, and is restricted by applicable state law limitations on distributions to shareholders. As a result, the amount, if any, of the dividends to be paid by us in the future depends upon a number of factors, including but

not limited to our available cash on hand, anticipated cash needs, overall financial condition, future prospects for earnings and cash flows, as well as other factors considered relevant by our Board of Directors. In addition, our Board of Directors may also suspend the payment of dividends at any time. Any reduction or suspension in our dividend payments could adversely affect the price of our common stock.

Our stock repurchase programs could affect the market price of our common stock and increase its volatility

Our Board of Directors has from time to time authorized repurchase programs of our outstanding common stock. Under these stock repurchase programs, we are authorized to repurchase, from time-to-time, shares of our outstanding common stock on the open market or in privately negotiated transactions. The timing and amount of stock repurchases are determined based upon our evaluation of market conditions and other factors. Any stock repurchase program may be suspended, modified or discontinued at any time, and we have no obligation to repurchase any amount of our common stock under any program. Repurchases pursuant to our stock repurchase programs could affect the market price of our common stock and increase its volatility. Any termination of one of our stock repurchase programs could cause a decrease in the market price of our common stock price, and the existence of a stock repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity of our common stock. There can be no assurance that any stock repurchases under these programs will enhance stockholder value because the market price of our common stock may decline below the levels at which those repurchases were made. Although our stock repurchase programs are intended to enhance long-term stockholder value, short-term fluctuations in the market price of our common stock could reduce the programs' effectiveness.

We may need to take material write-offs for the impairment of goodwill and other intangible assets, including if our market capitalization declines

As further described in our Notes to Consolidated Financial Statements, goodwill and intangible assets with indefinite lives are monitored annually for impairment, or more frequently, if events or circumstances exist that would more likely than not reduce the fair value of a reporting unit below its carrying amount. In performing the first step of the goodwill impairment testing and measurement process, we compare the estimated fair value of each of our reporting units to its net book value to identify potential impairment. We estimate the fair value of our consulting business utilizing our market capitalization, plus an appropriate control premium, and for fiscal years prior to 2016, less the estimated fair value of GNU. Market capitalization is determined by multiplying the shares outstanding on the test date by the market price of our common stock on that date. We determine the control premium utilizing data from publicly available premium studies for the trailing four quarters for public company transactions in our industry group. If the estimated fair value of a reporting unit is less than its net book value, the second step is performed to determine if goodwill is impaired. If through the impairment evaluation process a reporting unit determines that goodwill has been impaired, an impairment charge would be recorded in our consolidated income statement.

A goodwill impairment charge in any period would have the effect of decreasing our earnings in such period. If we are required to take a substantial impairment charge, our reported operating results would be materially adversely affected in such period, though such a charge would have no impact on cash flows or working capital.

We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, result in material misstatements in our financial statements

We are responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. As disclosed in Item 9A, we identified material weaknesses in our internal control over financial reporting related to revenue and related reserve processes; compensation-related processes; and certain non-routine technical accounting

processes. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, we concluded that our internal control over financial reporting was not effective based on criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—An Integrated Framework* (2013).

We are actively engaged in developing a remediation plan designed to address this material weakness. To implement these remedial measures, we may need to commit additional resources, hire additional staff, and provide additional management oversight. If our remedial measures are insufficient to address the material weakness, or if additional material weaknesses or significant deficiencies in our internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements, and we could be required to restate our financial results. In addition, if we are unable to successfully remediate this material weakness and if we are unable to produce accurate and timely financial statements, our stock price may be adversely affected and we may be unable to maintain compliance with applicable stock exchange listing requirements.

Our debt obligations may adversely impact our financial performance

We rely on our cash and cash equivalents, cash flows from operations and borrowings under our credit agreement to fund our short-term and anticipated long-term operating activities. We have a revolving line of credit with our bank for \$125.0 million. The amounts available under this line of credit are constrained by various financial covenants and reduced by certain letters of credit outstanding. Our loan agreement with the bank will mature on April 24, 2018. At December 31, 2016, we had no borrowings outstanding under the credit agreement and approximately \$122.8 million available for future borrowings, after consideration of outstanding letters of credit. The degree to which we are leveraged could adversely affect our ability to obtain further financing for working capital, acquisitions or other purposes and could make us more vulnerable to industry downturns and competitive pressures. Our ability to secure short-term and long-term debt or equity financing in the future will depend on several factors, including our future profitability, the levels of our debt and equity, restrictions under our existing revolving line of credit, and the overall credit and equity market environments.

We could incur substantial costs protecting our proprietary rights from infringement or defending against a claim of infringement

As a professional services organization, we rely on non-competition and non-solicitation agreements with many of our employees and non-employee experts to protect our proprietary rights. These agreements, however, may offer us only limited protection and may not be enforceable in every jurisdiction. In addition, we may incur substantial costs trying to enforce these agreements.

Our services may involve the development of custom business processes or solutions for specific clients. In some cases, the clients retain ownership or impose restrictions on our ability to use the business processes or solutions developed from these projects. Issues relating to the ownership of business processes or solutions can be complicated, and disputes could arise that affect our ability to resell or reuse business processes or solutions we develop for clients.

In recent years, there has been significant litigation in the U.S. involving patents and other intellectual property rights. We could incur substantial costs in prosecuting or defending any intellectual property litigation, which could adversely affect our operating results and financial condition.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain and use information that we regard as proprietary. Litigation may be necessary in the future to enforce our proprietary rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Any such resulting litigation could result in substantial costs and diversion of resources and could adversely affect our

business, operating results and financial condition. Any failure by us to protect our proprietary rights, or any court determination that we have either infringed or lost ownership of proprietary rights, could adversely affect our business, operating results and financial condition.

Insurance and claims expenses could significantly reduce our profitability

We are exposed to claims related to group health insurance. We self-insure a portion of the risk associated with these claims. If the number or severity of claims increases, or we are required to accrue or pay additional amounts because the claims prove to be more severe than our original assessment, our operating results would be adversely affected. Our future insurance and claims expense might exceed historical levels, which could reduce our earnings. We expect to periodically assess our self-insurance strategy. We are required to periodically evaluate and adjust our claims reserves to reflect our experience. However, ultimate results may differ from our estimates, which could result in losses over our reserved amounts. We maintain individual and aggregate medical plan stop loss insurance with licensed insurance carriers to limit our ultimate risk exposure for any one case and for our total liability.

Many businesses are experiencing the impact of increased medical costs as well as greater variability in ongoing costs. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention, when our policies are renewed. If these expenses increase or we experience a claim for which coverage is not provided, results of our operations and financial condition could be materially and adversely affected.

Our charter and by-laws, and Massachusetts law may deter takeovers

Our articles of organization and by-laws and Massachusetts law contain provisions that could have anti-takeover effects and that could discourage, delay, or prevent a change in control or an acquisition that our shareholders may find attractive. These provisions may also discourage proxy contests and make it more difficult for our shareholders to take some corporate actions, including the election of directors. These provisions could limit the price that investors might be willing to pay for shares of our common stock.

Item 1B—Unresolved Staff Comments

Not applicable.

Item 2—Properties

In the aggregate, as of December 31, 2016, we leased approximately 255,089 square feet of office space in locations around the world.

All of our offices are electronically linked and have access to our core consulting tools. We believe our existing facilities are adequate to meet our current requirements and that suitable space will be available as needed. See note 14 to our Notes to Consolidated Financial Statements for details on material leases.

Item 3—Legal Proceedings

None.

Item 4—Mine Safety Disclosures

Not applicable.

PART II

Item 5—Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information. We first offered our common stock to the public on April 23, 1998. Our common stock is traded on the NASDAQ Global Select Market under the symbol CRAI. The following table provides the high and low sales prices of our common stock as reported on the NASDAQ Global Select Market for the periods indicated.

<u>Fiscal Year Ended December 31, 2016</u>	<u>High</u>	<u>Low</u>
January 3, 2016 to April 2, 2016	\$21.73	\$16.25
April 3, 2016 to July 2, 2016	\$25.78	\$18.44
July 3, 2016 to October 1, 2016	\$31.31	\$23.96
October 2, 2016 to December 31, 2016	\$37.48	\$25.85

<u>Fiscal Year Ended January 2, 2016</u>	<u>High</u>	<u>Low</u>
January 4, 2015 to April 4, 2015	\$32.47	\$28.11
April 5, 2015 to July 4, 2015	\$32.23	\$25.89
July 5, 2015 to October 3, 2015	\$28.06	\$21.02
October 4, 2015 to January 2, 2016	\$24.70	\$17.77

Shareholders. We had approximately 109 holders of record of our common stock as of March 10, 2017. This number does not include shareholders for whom shares were held in a “nominee” or “street” name.

Dividends. On October 26, 2016, our Board of Directors declared our first quarterly dividend on our common stock. We anticipate paying regular quarterly dividends each year. These dividends are anticipated to be funded through cash flow from operations and available cash on hand. Although we anticipate paying regular quarterly dividends on our common stock for the foreseeable future, the declaration of any future dividends is subject to the discretion of our Board of Directors.

Repurchases of Equity Securities. The following table provides information about our repurchases of shares of our common stock during the fiscal quarter ended December 31, 2016. During that period, we did not act in concert with any affiliate or any other person to acquire any of our common stock and, accordingly, we do not believe that purchases by any such affiliate or other person (if any) are reportable in the following table. For purposes of this table, we have divided the fiscal quarter into three periods of four weeks, four weeks and five weeks, respectively, to coincide with our reporting periods during the fourth quarter of fiscal 2016.

Issuer Purchases of Equity Securities

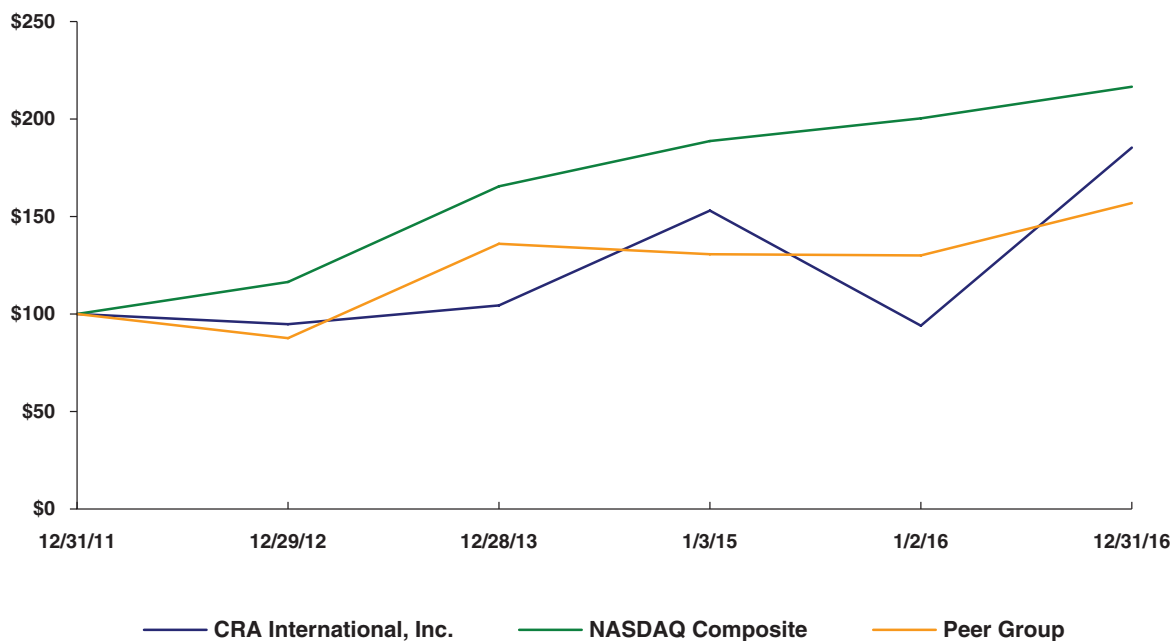
<u>Period</u>	(a) <u>Total Number of Shares Purchased(1)</u>	(b) <u>Average Price Paid per Share(1)</u>	(c) <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	(d) <u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)</u>
October 2, 2016 to October 29, 2016 .	—	—	—	\$9,034,453
October 30, 2016 to November 26, 2016	44,004	\$31.59 per share	—	\$9,034,453
November 27, 2016 to December 31, 2016	—	—	—	\$9,034,453

- (1) During the four weeks ended November 26, 2016, we accepted 44,004 shares of our common stock as a tax withholding from certain of our employees, in connection with the vesting of restricted shares that occurred during the period, pursuant to the terms of our 2006 equity incentive plan, at the average price per share of \$31.59.
- (2) On October 23, 2014 and March 21, 2016, we announced that our Board of Directors approved share repurchase programs of up to \$30 million and \$20 million, respectively, of our common stock. We may repurchase shares under these programs in open market purchases (including through any Rule 10b5-1 plan adopted by us) or in privately negotiated transactions in accordance with applicable insider trading and other securities laws and regulations. Approximately \$9.0 million was available for future repurchases under their programs as of December 31, 2016. We expect to continue to repurchase shares under these programs.

Shareholder Return Performance Graph. The graph below compares the cumulative 5-year total return of holders of our common stock with the cumulative total returns of the NASDAQ Composite index, and a customized peer group of four companies consisting of FTI Consulting, Inc., Huron Consulting Group Inc., Exponent Inc. and Navigant Consulting, Inc.

The graph tracks the performance of a \$100 investment in our common stock, in the peer group, and in a market index (with the reinvestment of all dividends) from December 31, 2011 to December 31, 2016. We initiated a quarterly dividend in the fourth quarter of fiscal 2016. Although we anticipate paying regular quarterly dividends on our common stock for the foreseeable future, the declaration of any future dividends is subject to the discretion of our Board of Directors. The performance of the market index and the peer group indices is shown on a total return (dividends reinvested) basis.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among CRA International, Inc., the NASDAQ Composite Index,
and a Peer Group



* \$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.
Index calculated on month-end basis.

	<u>12/31/11</u>	<u>12/29/12</u>	<u>12/28/13</u>	<u>1/3/15</u>	<u>1/2/16</u>	<u>12/31/16</u>
CRA International, Inc.	100.00	94.76	104.39	153.02	94.00	185.31
NASDAQ Composite	100.00	116.41	165.47	188.69	200.32	216.54
Peer Group	100.00	87.60	136.00	130.64	130.02	156.88

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6—Selected Financial Data

The following selected consolidated financial data for each of the fiscal years in the five-year period ended December 31, 2016, has been derived from our audited consolidated financial statements.

	December 31, 2016 (52 weeks)	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)	December 28, 2013 (52 weeks)	December 29, 2012 (52 weeks)
Consolidated Statements of Operations Data(1):					
Revenues	\$324,779	\$303,559	\$306,371	\$278,432	\$270,390
Costs of services	227,380	207,650	206,813	189,262	182,381
Gross profit	97,399	95,909	99,558	89,170	88,009
Selling, general and administrative expenses	70,584	72,439	69,074	64,242	67,235
Depreciation and amortization	7,896	6,552	6,443	6,411	7,190
Goodwill impairment(2)	—	4,524	—	—	71,394
Income (loss) from operations	18,919	12,394	24,041	18,517	(57,810)
GNU gain on extinguishment of debt	—	606	—	—	—
GNU gain on sale of business assets	3,836	—	—	—	—
Interest expense, net	(469)	(538)	(431)	(419)	(36)
Other expense, net	(397)	(647)	(295)	(180)	(177)
Income (loss) before (provision) benefit for income taxes and equity method investment loss, net of tax	21,889	11,815	23,315	17,918	(58,023)
(Provision) benefit for income taxes	(7,656)	(5,490)	(9,908)	(6,683)	5,180
Net income (loss)	14,233	6,325	13,407	11,235	(52,843)
Net (income) loss attributable to noncontrolling interest, net of tax	(1,345)	1,332	231	135	(147)
Net income (loss) attributable to CRA International, Inc.:	\$ 12,888	\$ 7,657	\$ 13,638	\$ 11,370	\$ (52,990)
Net income (loss) per share attributable to CRA International, Inc.(3):					
Basic	\$ 1.50	\$ 0.84	\$ 1.40	\$ 1.13	\$ (5.21)
Diluted	\$ 1.49	\$ 0.83	\$ 1.38	\$ 1.12	\$ (5.21)
Weighted average number of shares outstanding(3):					
Basic	8,503	9,010	9,747	10,084	10,167
Diluted	8,601	9,195	9,897	10,173	10,167
	December 31, 2016	January 2, 2016	January 3, 2015	December 28, 2013	December 29, 2012
Consolidated Balance Sheet Data(1):					
Working capital(4)	\$ 76,411	\$ 54,336	\$ 56,256	\$ 57,197	\$ 87,657
Total assets(4)	323,642	313,717	313,472	320,137	290,861
Total long-term debt	—	—	981	1,007	1,007
Total shareholders' equity	207,883	211,068	214,704	224,637	212,234

(1) On January 31, 2013, we announced that an approximate 40-person litigation consulting team had joined us, effective February 1, 2013. Under the terms of the transaction, we acquired certain intangible assets, accounts receivable, and certain client projects currently underway. This acquisition was accounted for under the purchase accounting method, and the results of operations for this acquisition have been included in the accompanying statements of operations from the date of acquisition.

- (2) See note 3 to our Notes to Consolidated Financial Statements. GNU incurred an impairment loss during the fourth quarter of fiscal 2015 in the amount of \$4.5 million. CRA incurred an impairment loss during the fourth quarter of fiscal 2012 in the amount of \$71.4 million.
- (3) Basic net income (loss) per share attributable to CRA represents net income (loss) attributable to CRA divided by the weighted average shares of common stock outstanding during the period. Diluted net income (loss) per share attributable to CRA represents net income (loss) attributable to CRA divided by the weighted average shares of common stock and common stock equivalents outstanding during the period, if applicable. Weighted average shares used in diluted net income per share include common stock equivalents arising from stock options, unvested restricted stock, time-vesting unvested restricted stock units, and shares underlying our debentures using the treasury stock method for fiscal 2014, 2013 and 2012. The two-class method was used for fiscal 2016 and 2015. All common stock equivalents were excluded in fiscal 2012.
- (4) During the fourth quarter of fiscal year 2015, we retrospectively adopted ASU-2015-17, *Balance Sheet Classification of Deferred Taxes*, which required a reclassification of current deferred tax assets and liabilities to non-current. As a result, the current assets and current liabilities amounts have been adjusted for fiscal years 2014, 2013 and 2012 to conform prior period classifications to the new guidance.

Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading worldwide economic, financial, and management consulting firm that applies advanced analytic techniques and in-depth industry knowledge to complex engagements for a broad range of clients.

We derive revenues principally from professional services rendered by our employee consultants. In most instances, we charge clients on a time-and-materials basis and recognize revenues in the period when we provide our services. We charge consultants’ time at hourly rates, which vary from consultant to consultant depending on a consultant’s position, experience, expertise, and other factors. We derive a portion of our revenues from fixed-price engagements. Revenues from fixed-price engagements are recognized using a proportional performance method based on the ratio of costs incurred, substantially all of which are labor-related, to the total estimated project costs. We generate substantially all of our professional services fees from the work of our own employee consultants and a portion from the work of our non-employee experts. Factors that affect our professional services revenues include the number and scope of client engagements, the number of consultants we employ, the consultants’ billing rates, and the number of hours our consultants work. Revenues also include reimbursements, which include reimbursements for travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses.

Our costs of services include the salaries, bonuses, share-based compensation expense, and benefits of our employee consultants. Our bonus program awards discretionary bonuses based on our revenues and profitability and individual performance. Costs of services also include out-of-pocket and other expenses, and the salaries of support staff whose time is billed directly to clients, such as librarians, editors, and programmers, as well as the amounts billed to us by our non-employee experts for services rendered while completing a project. Selling, general, and administrative expenses include salaries, bonuses, share-based compensation expense, and benefits of our administrative and support staff, fees to non-employee experts for generating new business, office rent, marketing, and other costs.

Utilization and Seasonality

We derive the majority of our revenues from the number of hours worked by our employee consultants. Our utilization of those employee consultants is one key indicator that we use to measure our operating performance. We calculate utilization by dividing the total hours worked by our employee consultants on engagements during the measurement period by the total number of hours that our

employee consultants were available to work during that period. Utilization was 74%, 74%, and 76%, for fiscal 2016, fiscal 2015, and fiscal 2014, respectively.

We experience certain seasonal effects that impact our revenue. Concurrent vacations or holidays taken by a large number of consultants can adversely impact our revenue. For example, we usually experience fewer billable hours in our fiscal third quarter, as that is the summer vacation season for most of our offices, and in our fiscal fourth quarter, as that is the quarter that typically includes the December holiday season.

International Operations

Revenues outside of the U.S. accounted for approximately 22%, 20%, and 22%, of our total revenues in fiscal 2016, fiscal 2015, and fiscal 2014, respectively. Revenue by country is detailed in note 11 to our Notes to Consolidated Financial Statements.

Noncontrolling Interest

Please refer to the “Principles of Consolidation” in note 1 of our Notes to Consolidated Financial Statements contained in this Form 10-K.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets and liabilities, as well as related 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. Estimates in these consolidated financial statements include, but are not limited to, allowances for accounts receivable and unbilled services, revenue recognition on fixed price contracts, depreciation of property and equipment, share-based compensation, valuation of acquired intangible assets, impairment of long-lived assets, goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, accrued compensation, accrued exit costs, and other accrued expenses. These items are monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if our assumptions based on past experience or our other assumptions do not turn out to be substantially accurate.

A summary of the accounting policies that we believe are most critical to understanding and evaluating our financial results is set forth below. This summary should be read in conjunction with our consolidated financial statements and the related notes included in Item 8 of this annual report on Form 10-K.

Revenue Recognition and Accounts Receivable Allowances. We derive substantially all of our revenues from the performance of professional services. The contracts that we enter into and operate under specify whether the engagement will be billed on a time-and-materials or a fixed-price basis. These engagements generally last three to six months, although some of our engagements can be much longer in duration. Each contract must be approved by one of our vice presidents.

We recognize substantially all of our revenues under written service contracts when the fee is fixed or determinable, as the services are provided, and only in those situations where collection from the client is reasonably assured. In certain cases we provide services to our clients without sufficient contractual documentation, or fees are tied to performance-based criteria, which require us to defer revenue in accordance with U.S. GAAP. In these cases, these amounts are fully reserved until all criteria for recognizing revenue are met.

Our revenues include projects secured by our non-employee experts as well as projects secured by our employees. We recognize all project revenue on a gross basis based on the consideration of the criteria set forth in Accounting Standards Codification (“ASC”) Topic 605-45, *Principal Agent Considerations*.

Most of our revenue is derived from time-and-materials service contracts. Revenues from time-and-materials service contracts are recognized as the services are provided based upon hours worked and contractually agreed-upon hourly rates, as well as indirect fees based upon hours worked.

Revenues from a majority of our fixed-price engagements are recognized on a proportional performance method based on the ratio of costs incurred, substantially all of which are labor-related, to the total estimated project costs. In general, project costs are classified in costs of services and are based on the direct salary of the consultants on the engagement plus all direct expenses incurred to complete the engagement, including any amounts billed to us by our non-employee experts. The proportional performance method is used for fixed-price contracts because reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and the terms set forth in the contract, and are indicative of the level of benefit provided to our clients. Fixed-price contracts generally convert to time-and-materials contracts in the event a contract terminates. Our management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, management is updated on the budgeted costs and resources required to complete the project. These budgets are then used to calculate proportional performance ratios and to estimate the anticipated income or loss on the project. Occasionally, we have been required to commit unanticipated additional resources to complete projects, which has resulted in lower than anticipated income or losses on those contracts. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

Revenues also include reimbursements, which include reimbursement for travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. Our average days sales outstanding (DSOs) are calculated by dividing the sum of our accounts receivable and unbilled services balance, net of deferred revenue, at the end of the period by average daily revenues. Average daily revenues are calculated by dividing period revenues by the number of days in the period. Our project managers and finance personnel monitor payments from our clients and assess any collection issues. We maintain accounts receivable allowances for estimated losses resulting from disputed amounts or the inability of our clients to make required payments. We base our estimates on our historical collection experience, current trends, and credit policy. In determining these estimates, we examine historical write-offs of our receivables and review client accounts to identify any specific customer collection issues. If the financial condition of our customers were to deteriorate or disputes were to arise regarding the services provided, resulting in an impairment of their ability or intent to make payment, additional allowances may be required. A failure to estimate accurately the accounts receivable allowances and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, and results of operations

Share-Based Compensation Expense. Share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. We use the Black-Scholes option-pricing model to estimate the fair value of stock options. Option valuation models require the input of assumptions, including the expected life of the share-based awards, the expected stock price volatility, the risk-free interest rate, the expected forfeiture rates, and the expected dividend yield. The expected volatility and expected life are based on our historical experience. The risk-free interest rate is based on U.S. Treasury interest rates with corresponding terms consistent with the expected life of the share-based award. Expected dividend yield was determined based on our annualized dividend rate per share, as a percentage of average market price of the common stock, on each dividend payment date. We will update these assumptions if changes are warranted. The forfeiture rate is based upon historical experience. We believe that our historical experience is an appropriate indicator of future forfeitures.

Our Amended and Restated 2006 Equity Incentive Plan, as amended (the “2006 Equity Plan”), authorizes the grant of a variety of incentive and performance equity awards to our directors, employees and independent contractors, including stock options, shares of restricted stock, restricted stock units, and other equity awards. The 2006 Equity Plan has used standard “fungibility ratios” to count grants of full-share awards (such as shares of restricted stock and restricted stock units) against the maximum number shares issuable under the plan. The current fungibility ratio, applicable to full-share grants made on or after April 30, 2010, is 1.83. The fungibility ratio applicable to full-share grants made before March 12, 2008 was 1.8, and the fungibility ratio applicable to full-share grants made from March 12, 2008 and before April 30, 2010 was 2.2. The fungibility ratio does not apply to grants of stock options. The maximum number of shares issuable under the 2006 Equity Plan is 4,874,000, consisting of (1) 500,000 shares initially reserved for issuance under the 2006 Equity Plan, (2) 1,000,000 shares that either remained for future awards under our 1998 Incentive and Nonqualified Stock Option Plan (the “1998 Option Plan”) on April 21, 2006, the date our shareholders initially approved the 2006 Equity Plan, or were subject to stock options issued under the 1998 Option Plan that were forfeited or terminated after April 21, 2006, (3) 210,000 shares approved by our shareholders in 2008, (4) 1,464,000 shares approved by our shareholders in 2010, and (5) the 2,500,000 shares approved by our shareholders in 2012 reduced by the 800,000 shares cancelled by our Board of Directors on April 22, 2016, as reported in the current report on Form 8-K that we filed on April 27, 2016.

As of December 31, 2016, there were 60,221 shares of our common stock available for award grants under the 2006 Equity Incentive plan, calculated as follows:

	<u>Actual Shares</u>	<u>Shares Using Fungibility Ratio</u>
Maximum shares of common stock issuable under the 2006 Equity Plan		4,874,000
Full-share awards granted/reserved through March 12, 2008	471,827	(849,289)
Full-share awards granted/reserved from March 12, 2008 to April 29, 2010	352,932	(776,450)
Full-share awards granted/reserved on or after April 30, 2010	1,899,332	(3,474,313)
Cancellation of full-share awards granted/reserved through March 12, 2008	91,277	164,299
Cancellation of full-share awards granted/reserved between March 12, 2008 and April 29, 2010	91,964	202,321
Cancellation of full-share awards granted/reserved on or after April 30, 2010	568,243	1,039,886
Options granted		(1,377,561)
Options cancelled		218,333
Options forfeited		<u>38,995</u>
Shares available for grant under the 2006 Equity Plan as of December 31, 2016		<u><u>60,221</u></u>

Deferred Compensation. We account for performance based cash awards using a prospective accrual method. Under the requirements of ASC Topic 710, “Compensation General” (“ASC Topic 710”) to the extent the terms of the contract attribute all or a portion of the expected future benefits to a period of service greater than one year, the cost of those benefits are accrued over the period of the employee or non-employee’s service in a systematic and rational manner. We have implemented a process that requires the liability to be re-evaluated on a quarterly basis.

The required service period typically ranges from three to six years starting at the beginning of the awards performance measurement period. A recipient of such an award is expected to be affiliated with CRA for the entire service period. If a recipient terminates affiliation with CRA during the

measurement period, the amount paid will be determined in accordance with the recipient's specific contract provisions.

Valuation of Goodwill and Other Intangible Assets. We account for our acquisitions under the purchase method of accounting. Goodwill represents the purchase price of acquired businesses in excess of the fair market value of net assets acquired. Intangible assets that are separate from goodwill and have determinable useful lives are valued separately. These intangible assets typically consist of non-competition agreements, customer relationships, customer lists, developed technology, and trademarks, which are generally amortized on a straight-line basis over their estimated remaining useful lives of four to ten years.

In accordance with ASC Topic 350, "Intangibles—Goodwill and Other" ("ASC Topic 350"), goodwill and intangible assets with indefinite lives are not subject to amortization, but are monitored annually as of October 15th for impairment, or more frequently, as necessary, if events or circumstances exist that would more likely than not reduce the fair value of the reporting unit below its carrying amount. For our fiscal 2016 goodwill impairment analysis, we operate under one reporting unit, which is consulting services. Prior to April 13, 2016, we operated under two reporting units, which were consulting services and GNU.

Under ASC Topic 350, in performing the first step of the goodwill impairment testing and measurement process, we compare the estimated value of each of our reporting units to its net book value to identify potential impairment. We estimate the fair value of our consulting business utilizing our market capitalization, plus an appropriate control premium, less prior to fiscal 2016, the estimated fair value of GNU. Market capitalization is determined by multiplying our shares outstanding on the test date by the market price of our common stock on that date. We determine the control premium utilizing data from publicly available premium studies for the trailing four quarters for public company transactions in our industry group. If the estimated fair value of a reporting unit is less than its net book value, the second step is performed to determine if goodwill is impaired. If through the impairment evaluation process a reporting unit determines that goodwill has been impaired, an impairment charge would be recorded in our consolidated income statement.

GNU incurred an impairment loss during the fourth quarter of fiscal 2015. CRA's consulting services did not incur an impairment loss related to goodwill during fiscal 2016, fiscal 2015 or fiscal 2014. The estimated fair value of CRA's consulting services was greater than its carrying value as of October 15th in each of these fiscal years.

The re-measurement of a reporting unit's fair value and that of its underlying assets and liabilities is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed using specific information from the reporting units. The fair value adjustment to goodwill, which resulted in GNU's impairment charge in the fourth quarter of fiscal 2015, was computed as the difference between its fair value and the fair value of its underlying assets and liabilities. The unobservable inputs used to determine the fair value of the underlying assets and liabilities are based on our specific information such as estimates of revenue and cost growth rates, profit margins, discount rates, and estimated costs. See note 3, "Goodwill and Intangible Assets," for further details.

We assess the impairment of amortizable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include the following:

- a significant underperformance relative to expected historical or projected future operating results;
- a significant change in the manner of our use of the acquired asset or the strategy for our overall business; and
- a significant negative industry or economic trend.

If we were to determine that an impairment evaluation is required, we would review the expected future undiscounted cash flows to be generated by the assets. If we determine that the carrying value of intangible assets may not be recoverable, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model.

Accounting for Income Taxes. We record income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Our financial statements contain certain deferred tax assets and liabilities that result from temporary differences between book and tax accounting, as well as net operating loss carryforwards. ASC Topic 740, "Income Taxes" ("ASC Topic 740"), requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We evaluate the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The decision to record a valuation allowance requires varying degrees of judgment based upon the nature of the item giving rise to the deferred tax asset. As a result of operating losses incurred in certain of our foreign subsidiaries, and uncertainty as to the extent and timing of profitability in future periods, we have recorded valuation allowances on our tax loss carryforwards. In certain of these jurisdictions, the tax loss carryforwards do not expire. However, a deferred tax asset is not realizable even if it can be carried forward indefinitely. Furthermore, an indefinite-lived intangible giving rise to a deferred tax liability may not be used as a source of future taxable income that changes the need for a valuation allowance. If the realization of deferred tax assets is considered more likely than not, the corresponding release of the valuation allowance would increase net income in the period such determination was made. The amount of the deferred tax asset considered realizable is based on significant estimates, including forecasts of future income, and it is possible that changes in these estimates in the near term could materially affect our financial condition and results of operations.

Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss, changes to the valuation allowance, changes to federal, state, or foreign tax laws, future expansion into areas with varying country, state, and local income tax rates, deductibility of certain costs, uncertain tax positions, and expenses by jurisdiction, and as a result of acquisitions or dispositions.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different tax jurisdictions. We are periodically reviewed by domestic and foreign tax authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. We account for uncertainties in income tax positions in accordance with ASC Topic 740. The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdiction is the United States where we are no longer subject to U.S. federal examinations by the Internal Revenue Service for years before fiscal 2012. Within the significant states where we are subject to income tax, we are no longer subject to examinations by state taxing authorities before fiscal 2012. Our United Kingdom subsidiary's corporate tax returns are no longer subject to examination by Her Majesty's Revenue and Customs for fiscal years before fiscal 2013. During this fiscal year, 2016, an examination by the Internal Revenue Service for fiscal 2014 has commenced. We believe our reserves for uncertain tax positions are adequate.

Recent Accounting Standards

Leases (Topic 842)

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease, requires a dual approach to lease classification similar to current lease classifications, and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. We have not yet determined the effects, if any, that the adoption of ASU 2016-02 may have on our financial position, results of operations, cash flows, or disclosures.

Revenue from Contracts with Customers

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU 2015-14”). ASU 2015-14 defers by one year the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). The deferral results in ASU 2014-09 being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The main provision of ASU 2014-09 is to recognize revenue when control of the goods or services transfers to the customer, as opposed to the existing guidance of recognizing revenue when the risks and rewards transfer to the customer. The standard is expected to have an impact on the amount and timing of revenue recognized and the related disclosures on our financial statements. We will adopt ASU 2014-09 during the first quarter of 2018 and we expect to adopt this new standard using the modified retrospective method. We have not completed our assessment and have not yet determined whether the impact of the adoption of this standard on our financial position, results of operations, cash flows, or disclosures will be material.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 establishes new classification for excess tax benefits and deficiencies relating to share based payments. In addition, the new pronouncement allows for the option of estimating awards expected to vest or accounting for forfeitures when they occur. Cash paid by employers when withholding shares for tax withholding purposes will now be classified as a financing activity. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We will adopt ASU 2016-09 in our first quarter of 2017. Currently, excess tax benefits or deficiencies from our equity awards are recorded as additional paid-in capital in our Consolidated Balance Sheets. Upon adoption, we will record any excess tax benefits or deficiencies from our equity awards in our Consolidated Statements of Operations in the reporting periods in which vesting occurs. As a result, subsequent to adoption our income tax expense and associated effective tax rate will be impacted by fluctuations in stock price between the grant dates and vesting dates of equity awards.

Statement of Cash Flows (Topic 230): Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”). ASU 2016-18 amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The new standard requires cash and cash equivalents balances on the statement of cash flows to include restricted cash and cash equivalent balances. ASU 2016-18 requires the registrant to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with GAAP. Additionally, changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows. A registrant with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The new standard is effective for interim and annual periods beginning after December 15, 2017. We believe that the adoption of ASU 2016-18 will not have a material impact on our financial position, results of operations, cash flows, or disclosures.

Business Combinations (Topic 805): Clarifying the Definition of a Business

On January 5, 2017, the FASB issued a new ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the amendments, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. For public companies, ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early application of the amendments in ASU 2017-01 is allowed for transactions for which the acquisition date occurs before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued or made available for issuance; and for transactions in which a subsidiary is deconsolidated or a group of assets is derecognized that occur before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued or made available for issuance. We have not yet determined the effects, if any, that the adoption of ASU 2017-01 may have on our financial position, results of operations, cash flows, or disclosures.

Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

On January 26, 2017, the FASB issued a new ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 simplifies the subsequent measurement of goodwill, and eliminates Step 2 from the goodwill impairment test. Under the amendments, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendment also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. For public companies, ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1,

2017. We have not yet determined the effects, if any, that the adoption of ASU 2017-04 may have on our financial position, results of operations, cash flows, or disclosures.

Results of Operations

The following table provides operating information as a percentage of revenues for the periods indicated:

	Fiscal Year Ended		
	December 31, 2016 (52 weeks)	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)
Revenues	100.0%	100.0%	100.0%
Costs of services	70.0	68.4	67.5
Gross profit	30.0	31.6	32.5
Selling, general and administrative expenses	21.7	23.9	22.5
Depreciation and amortization	2.4	2.2	2.1
GNU goodwill impairment	—	1.5	—
Income from operations	5.8	4.0	7.9
GNU gain on extinguishment of debt	—	0.2	—
GNU gain on sale of business assets	1.2	—	—
Interest expense, net	(0.2)	(0.2)	(0.1)
Other expense, net	(0.1)	(0.1)	(0.1)
Income before provision for income taxes	6.7	3.9	7.7
Provision for income taxes	(2.4)	(1.8)	(3.2)
Net income	4.4	2.1	4.5
Net (income) loss attributable to noncontrolling interest, net of tax	(0.4)	0.4	0.0
Net income attributable to CRA International, Inc.	<u>4.0%</u>	<u>2.5%</u>	<u>4.5%</u>

Fiscal 2016 Compared to Fiscal 2015

Our fiscal year end is the Saturday nearest December 31 of each year. Our fiscal years periodically contain 53 weeks rather than 52 weeks. Fiscal 2016 and fiscal 2015 were both 52-week years.

Revenues. Revenues increased by \$21.2 million, or 7.0%, to \$324.8 million for fiscal 2016 from \$303.6 million for fiscal 2015. Revenue growth was driven by an increase in average consulting headcount during fiscal 2016 compared to fiscal 2015, while utilization remained flat at 74% for fiscal 2016 and fiscal 2015. Offsetting this increase, GNU revenue decreased \$2.9 million in fiscal 2016 as compared to fiscal 2015, principally due to the cessation of its operations in April 2016.

Overall, revenues outside of the U.S. represented approximately 22% and 20% of total revenues for fiscal 2016 and fiscal 2015, respectively. Revenues derived from fixed-price engagements increased to 17% of total revenues for fiscal 2016 as compared with 14% for fiscal 2015. These percentages of revenue derived from fixed-price engagements depend largely on the proportion of our revenues derived from our management consulting business, as the management consulting business typically has a higher concentration of fixed-price service engagements.

Costs of Services. Costs of services increased by \$19.7 million, or 9.5%, to \$227.4 million for fiscal 2016 from \$207.7 million for fiscal 2015. These increased costs were driven by the salaries and fringe benefits of our increased consulting headcount, as well as increases in incentive compensation and forgivable loan amortization. As a percentage of revenues, costs of services increased to 70.0% for fiscal 2016 from 68.4% for fiscal 2015 due to the previously mentioned increase to employee compensation and fringe benefits costs as more revenue was sourced by employees rather than

non-employee experts in fiscal 2016 as compared to fiscal 2015. GNU's costs of services declined during fiscal 2016 by \$0.9 million, principally due to the cessation of its operations in April 2016.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased by \$1.8 million, or 2.5%, to \$70.6 million for fiscal 2016 from \$72.4 million for fiscal 2015. A significant contributor to this decrease was reduction in commissions to our nonemployee experts of \$0.7 million for fiscal 2016 compared to fiscal 2015, as a lower percentage of our revenue for fiscal 2016 was sourced by our nonemployee experts as compared to fiscal 2015. In addition, there was an overall decrease in rent expense of \$1.9 million principally due to higher double rent payments related to our Boston, Massachusetts office in fiscal 2015 compared to our London office in fiscal 2016. Selling, general and administrative expense for GNU decreased by \$2.0 million to \$1.1 million for fiscal 2016 from \$3.1 million for fiscal 2015, due to the cessation of its operations in April 2016. Offsetting these cost reductions were increases in professional fees of \$1.4 million, incentive compensation of \$0.7 million and bad debt of \$1.0 million.

As a percentage of revenues, selling, general and administrative expenses decreased to 21.7% for fiscal 2016 from 23.9% for fiscal 2015 due primarily to the decrease in the previously mentioned selling, general and administrative expenses and the increase in revenues. Commissions to non-employee experts decreased to 2.9% of revenue in fiscal 2016 compared to 3.4% of revenue in fiscal 2015 as less revenue was sourced by nonemployee experts in fiscal 2016.

GNU Goodwill Impairment. In accordance with ASC Topic 350, "Intangibles—Goodwill and Other," goodwill and intangible assets with indefinite lives are monitored annually for impairment, or more frequently, as necessary, if events or circumstances exist that would more likely than not reduce the fair value of the reporting unit below its carrying amount. During the fourth quarter of 2015 it was determined that GNU's net book value exceeded the fair value of its equity. Therefore, GNU was required to perform a step two goodwill impairment test, which resulted in an impairment charge of \$4.5 million. No goodwill impairment was taken in fiscal 2016.

GNU Gain on Extinguishment of Debt. On January 8, 2015, GNU entered into an agreement to settle a note payable of approximately \$981,000 in exchange for aggregate payments of \$375,000. GNU recorded a gain on the extinguishment of this debt in the first quarter of fiscal 2015 of approximately \$606,000. Under the settlement order, scheduled payments were made as follows: \$150,000 on January 8, 2015 and \$150,000 on February 28, 2015. The final payment of \$75,000, due on February 29, 2016, was repaid on February 16, 2016.

GNU Gain on Sale of Business Assets. On April 13, 2016, a buyer acquired substantially all of the business assets and assumed substantially all of the liabilities of GNU for a purchase price of \$1.35 million. Of this amount, \$1.1 million was received at closing, with the remaining \$0.25 million payable on or after April 13, 2017, subject to contingencies, as outlined in the asset purchase agreement. GNU recognized a gain on sale of its business assets of \$3.8 million during the second quarter of fiscal 2016, of which \$2.1 million is attributed to CRA.

Other Expense, Net. Other expense, net decreased by \$0.2 million to \$0.4 million for fiscal 2016 from \$0.6 million for fiscal 2015. Other expense, net consists primarily of net foreign currency exchange transaction gains and losses. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies, including the Euro, the British Pound, and the Canadian Dollar. Additionally, our multi-currency credit facility allows us to mitigate such foreign exchange exposures.

Provision for Income Taxes. For fiscal 2016, our income tax provision was \$7.7 million and the effective tax rate was 35.0% as compared to a provision of \$5.5 million and an effective tax rate of 46.5% for fiscal 2015. The effective tax rate for fiscal 2016 was lower than the prior year rate primarily due to lower tax reserves and permanent items in the current year coupled with the negative impact of GNU's goodwill impairment in prior year. The effective tax rate in fiscal 2016 was lower than our

combined federal and state statutory tax rate primarily due to the tax benefit realized for the use of GNU net operating loss carryforwards that previously had a valuation allowance as a result of the sale of their assets during Q2, jurisdictional mix of income, and certain favorable prior period adjustments. Absent the GNU sale and deferred taxes associated with the GNU liquidation, the effective tax rate in fiscal 2016 would have been 39.1%. The effective tax rate in fiscal 2015 was higher than our combined federal and state statutory tax rate due to the GNU goodwill impairment and an increase in tax reserves and permanent items, offset by the benefit realized for the use of net operating loss carryforwards that previously had a valuation allowance.

Net (Income) Loss Attributable to Noncontrolling Interest, Net of Tax. Our ownership interest in GNU was 55.89% at the end of fiscal 2016 and fiscal 2015. As a result, GNU's financial results are consolidated with ours and allocations of the noncontrolling interest's share of GNU's net income result in deductions to our net income, while allocations of the noncontrolling interest's share of GNU's net loss result in additions to our net income. GNU's results of operations allocable to its other owners was net income of \$1.3 million for fiscal 2016, primarily as a result of the gain on sale attributable to its other owners of \$1.7 million and a net loss of \$0.4 million.

Net Income Attributable to CRA International, Inc. Net income attributable to CRA International, Inc. increased by \$5.2 million to net income of \$12.9 million for fiscal 2016 from net income of \$7.7 million for fiscal 2015. The diluted net income per share was \$1.49 per share for fiscal 2016, compared to diluted net income per share of \$0.83 for fiscal 2015. Diluted weighted average shares outstanding decreased by approximately 594,000 shares to approximately 8,601,000 shares for fiscal 2016 from approximately 9,195,000 shares for fiscal 2015. The decrease in diluted weighted average shares outstanding was primarily due to repurchases of common stock, offset in part by an increase as a result of shares of restricted stock and time-vesting restricted stock units that have vested or that have been issued, and stock options that have been exercised, since January 2, 2016.

Fiscal 2015 Compared to Fiscal 2014

Our fiscal year end is the Saturday nearest December 31 of each year. Our fiscal years periodically contain 53 weeks rather than 52 weeks. Fiscal 2015 was a 52-week year and fiscal 2014 was a 53-week year.

Revenues. Revenues decreased by \$2.8 million, or 1.0%, to \$303.6 million for fiscal 2015 from \$306.4 million for fiscal 2014. Our revenue decrease was due primarily to the one week decrease in the number of weeks included in the fiscal 2015 reporting period as compared to fiscal 2014, as well as a decrease in utilization from 76% for fiscal 2014 to 74% for fiscal 2015. The decrease in utilization during the year was principally driven by an increase in headcount and their associated integration during the second half of the year. Revenues in fiscal 2015 as compared to fiscal 2014 also reflected a \$3.1 million decrease in client reimbursable expenses. In addition, GNU revenue decreased \$1.0 million in fiscal 2015 as compared to fiscal 2014.

Overall, revenues outside of the U.S. represented approximately 20% and 22% of total revenues for fiscal 2015 and fiscal 2014, respectively. Revenues derived from fixed-price engagements decreased to 14% of total revenues for fiscal 2015 as compared with 15% for fiscal 2014. These percentages of revenue derived from fixed-price engagements depend largely on the proportion of our revenues derived from our management consulting business, as the management consulting business typically has a higher concentration of fixed-price service engagements.

Costs of Services. Costs of services increased by \$0.9 million, or 0.4%, to \$207.7 million for fiscal 2015 from \$206.8 million for fiscal 2014. As a percentage of revenues, costs of services increased to 68.4% for fiscal 2015 from 67.5% for fiscal 2014 due to the increase in expenses resulting from the headcount increases in fiscal 2015 as compared with fiscal 2014 and the reduction in revenue in fiscal 2015 as compared to fiscal 2014, partially offset by a \$3.1 million decrease in client reimbursable expenses in fiscal 2015 as compared with fiscal 2014.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased by \$3.3 million, or 4.8%, to \$72.4 million for fiscal 2015 from \$69.1 million for fiscal 2014. The primary contributor to this increase was the additional temporary rent expense as we occupied our legacy office spaces at the same time as building out our new spaces. The temporary additional rent expense in Boston began in February 2015 and concluded in the third quarter of fiscal 2015. In New York City, the temporary additional rent expense began in August 2015 and we expect it to end in fiscal 2016. Other increases in selling, general and administrative expenses related to increases in certain operating expenses (including recruiting fees, marketing expenses, professional services and travel expenses).

As a percentage of revenues, selling, general and administrative expenses increased to 23.9% for fiscal 2015 from 22.5% for fiscal 2014 due primarily to the decrease in revenues in fiscal 2015 compared to fiscal 2014, while selling, general, and administrative expenses in fiscal 2015 increased as compared to fiscal 2014 by approximately \$3.3 million. Commissions to non-employee experts represented 3.4% of revenue in fiscal 2015 and 3.0% of revenue in fiscal 2014.

GNU Goodwill Impairment. In accordance with ASC Topic 350, “Intangibles—Goodwill and Other,” goodwill and intangible assets with indefinite lives are monitored annually for impairment, or more frequently, as necessary, if events or circumstances exist that would more likely than not reduce the fair value of the reporting unit below its carrying amount. During the fourth quarter of 2015 it was determined that GNU’s net book value exceeded the fair value of its equity. Therefore, GNU was required to perform a step two goodwill impairment test, which resulted in an impairment charge of \$4.5 million.

GNU Gain on Extinguishment of Debt. On January 8, 2015, GNU entered into an agreement to settle a note payable of approximately \$981,000 in exchange for aggregate payments of \$375,000. GNU recorded a gain on the extinguishment of this debt in the first quarter of fiscal 2015 of approximately \$606,000. Under the settlement order, scheduled payments were made as follows: \$150,000 on January 8, 2015 and \$150,000 on February 28, 2015. The final payment of \$75,000, due on February 29, 2016, was repaid on February 16, 2016.

Other Expense, Net. Other expense, net increased by \$352,000 to \$647,000 for fiscal 2015 from \$295,000 for fiscal 2014. Other expense, net consists primarily of foreign currency exchange transaction gains and losses. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies including the Euro, the British Pound, and the Canadian Dollar. Additionally, our multi-currency credit facility allows us to mitigate such foreign exchange exposures.

Provision for Income Taxes. For fiscal 2015, our income tax provision was \$5.5 million and the effective tax rate was 46.5% as compared to a provision of \$9.9 million and an effective tax rate of 42.5% for fiscal 2014. The effective tax rate for fiscal 2015 was higher than the prior year rate primarily due to the impact of GNU’s goodwill impairment. Absent this impairment, the effective tax rate for fiscal 2015 would have been 43.2%. This tax rate of 43.2% was higher than the prior year’s rate primarily due to an increase in tax reserves. Additionally, there were increases in permanent items that were offset by the benefit realized for the use of net operating loss carryforwards that previously had a valuation allowance. State taxes were consistent with last year when taking into account both the effects of law changes on the current year as well as the benefit of revaluing our deferred tax assets. The effective tax rate in fiscal 2015 was higher than our combined federal and state statutory tax rate also due to the GNU goodwill impairment and an increase in tax reserves and permanent items, offset by the benefit realized for the use of net operating loss carryforwards that previously had a valuation allowance. The effective tax rate in fiscal 2014 was higher than our combined federal and state statutory tax rate primarily due to a non-cash tax expense recorded in the second quarter of fiscal 2014 to correct an immaterial error in our previously issued consolidated financial statements, offset slightly by other prior period adjustments recorded in the fourth quarter. The effective tax rate also included a

benefit for the release of a valuation allowance as a result of recording a deferred tax liability associated with acquisition-related intangibles and the utilization of certain historical net operating losses that previously had a valuation allowance which were realized due to the profitability of the acquired business.

Net (Income) Loss Attributable to Noncontrolling Interest, Net of Tax. Our ownership interest in GNU was 55.89% at the end of fiscal 2015 and fiscal 2014. As a result, GNU's financial results are consolidated with ours and allocations of the noncontrolling interest's share of GNU's net income result in deductions to our net income, while allocations of the noncontrolling interest's share of GNU's net loss result in additions to our net income. GNU's results of operations allocable to its other owners was a net loss of \$1.3 million for fiscal 2015 and net loss of \$0.2 million for fiscal 2014.

Net Income Attributable to CRA International, Inc. Net income attributable to CRA International, Inc. decreased by \$5.9 million to net income of \$7.7 million for fiscal 2015 from net income of \$13.6 million for fiscal 2014. The diluted net income per share was \$0.83 per share for fiscal 2015, compared to diluted net income per share of \$1.38 for fiscal 2014. Diluted weighted average shares outstanding decreased by approximately 702,000 shares to approximately 9,195,000 shares for fiscal 2015 from approximately 9,897,000 shares for fiscal 2014. The decrease in diluted weighted average shares outstanding was primarily due to repurchases of common stock, offset in part by an increase as a result of shares of restricted stock and time-vesting restricted stock units that have vested or that have been issued, and stock options that have been exercised, since January 3, 2015.

Liquidity and Capital Resources

We believe that current cash, cash equivalents, cash generated from operations, and amounts available under our bank line of credit will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months.

General. In fiscal 2016, cash and cash equivalents increased by \$15.4 million. We completed the year with cash and cash equivalents of \$53.5 million and working capital (defined as current assets less current liabilities) of \$76.4 million. The principal drivers of the increase in cash were the increase in annual revenues of \$21.2 million and the decrease in days sales outstanding from 105 days at the end of fiscal 2015 to 102 days at the end of fiscal 2016.

Of the total cash and cash equivalents of \$53.5 million at December 31, 2016, \$32.9 million was held within the U.S. We have sufficient sources of cash in the U.S. to fund U.S. cash requirements without the need to repatriate any funds.

As of December 31, 2016, a substantial portion of our cash accounts was concentrated at a single financial institution, which potentially exposes us to credit risks. The financial institution has a short-term credit rating of A-2 by Standard & Poor's ratings services. We have not experienced any losses related to such accounts. We do not believe that there is significant risk of non-performance by the financial institution, and our cash on deposit is fully liquid. We continually monitor the credit ratings of the institution.

Sources and Uses of Cash. During fiscal 2016, net cash provided by operations was \$48.2 million. Cash provided by operations included net income of \$14.2 million, non-cash charges for depreciation and amortization expense of \$7.9 million, share-based compensation expense of \$6.9 million, deferred income tax expense of \$8.4 million and increased deferred rent of \$3.3 million. In addition, a \$16.3 million increase in accounts payable, accrued expenses and other liabilities, and a \$10.2 million increase in forgivable loans, was offset by a \$6.4 million decrease in prepaid expenses and other current assets, and other assets. The primary factor in cash used in operations was the \$8.4 million decrease in accounts receivable and unbilled services, net of the allowances. Other uses of cash included movement in the following cash flow statement line item: the reversal of the \$3.8 million gain on sale of GNU's business assets.

During fiscal 2016, net cash used in investing activities was \$11.9 million, which included \$4.3 million and \$1.7 million for capital expenditures related principally to outfitting our new office space in New York, NY and Washington, DC, respectively, for occupancy beginning in the first quarter. In addition, \$4.3 million was used for capital expenditures related to the new office space in London for occupancy beginning in the third quarter. We also used cash of \$2.4 million for capital expenditures related to computer equipment and software. Offsetting these uses of cash was \$1.1 million of cash proceeds received from the sale of GNU's business assets.

We used \$19.2 million of net cash in financing activities during fiscal 2016, primarily for the repurchase and retirement of shares of our common stock of \$19.3 million, the redemption of approximately \$1.9 million in vested employee restricted shares for tax withholdings and the payment of \$1.2 million cash dividend to shareholders. Additionally, GNU made a payment of \$0.1 million on its note payable during the first quarter. Offsetting these uses of cash was \$2.9 million received upon the issuance of shares of common stock related to the exercise of stock options and \$0.4 million of excess tax benefits from share-based compensation.

Indebtedness

We are party to a credit agreement that provides us with a \$125.0 million revolving credit facility and a \$15.0 million sublimit for the issuance of letters of credit. We may use the proceeds of the revolving credit facility to provide working capital and for other general corporate purposes. Generally, we may repay any borrowings under the revolving credit facility at any time, but must repay all borrowings no later than April 24, 2018. There were no borrowings outstanding under this revolving credit facility as of December 31, 2016.

The amount available under this revolving credit facility is reduced by certain letters of credit outstanding, which amounted to \$2.2 million as of December 31, 2016.

Borrowings under the revolving credit facility bear interest at a rate per annum, at our election, of either (i) the adjusted base rate, as defined in the credit agreement, plus an applicable margin, which varies between 0.50% and 1.50% depending on our total leverage ratio as determined under the credit agreement, or (ii) the adjusted eurocurrency rate, as defined in the credit agreement, plus an applicable margin, which varies between 1.50% and 2.50% depending on our total leverage ratio. We are required to pay a fee on the unused portion of the revolving credit facility at a rate per annum that varies between 0.25% and 0.375% depending on our total leverage ratio. Borrowings under the revolving credit facility are secured by 100% of the stock of certain of our U.S. subsidiaries and 65% of the stock of certain of our foreign subsidiaries, which represent approximately \$22.6 million in net assets as of December 31, 2016.

Under the credit agreement, we must comply with various financial and non-financial covenants. Compliance with these financial covenants is tested on a fiscal quarterly basis. Any indebtedness outstanding under the revolving credit facility may become immediately due and payable upon the occurrence of stated events of default, including our failure to pay principal, interest or fees or a violation of any financial covenant. The financial covenants require us to maintain an adjusted consolidated EBITDA to consolidated interest expense ratio of more than 2.5:1.0 and to comply with a consolidated debt to adjusted consolidated EBITDA ratio of not more than 3.0:1.0. The non-financial covenant restrictions of the senior credit agreement include, but are not limited to, our ability to incur additional indebtedness, engage in acquisitions or dispositions, and enter into business combinations.

Forgivable Loans and Term Loans

In order to attract and retain highly skilled professionals, we may issue forgivable loans or term loans to employees and non-employee experts. A portion of these loans is collateralized. The forgivable loans have terms that are generally between three and eight years. The principal amount of forgivable loans and accrued interest is forgiven by us over the term of the loans, so long as the employee or non-employee expert continues employment or affiliation with us and complies with certain contractual

requirements. The expense associated with the forgiveness of the principal amount of the loans is recorded as compensation expense over the service period, which is consistent with the term of the loans. Cash disbursements related to new forgivable loan issuances amounted to \$6.9 million and \$15.0 million in fiscal 2016 and fiscal 2015, respectively.

Compensation Arrangements

We have entered into cash compensation arrangements for the payment of incentive performance awards to certain of our non-employee experts and employees if specific performance targets are met. The amounts of the awards to be paid under these compensation arrangements could fluctuate depending on future performance through the respective measurement periods. Changes in the estimated award are expensed prospectively over the remaining service period. We believe that we will have sufficient funds to satisfy any obligations related to the incentive performance awards. We expect to fund these payments, if any, from existing cash resources, cash generated from operations, or borrowings on our existing revolving credit facility.

Business Acquisition

As part of our business, we regularly evaluate opportunities to acquire other consulting firms, practices or groups or other businesses. In recent years, we have typically paid for acquisitions with cash, or a combination of cash and our common stock, and we may continue to do so in the future. To pay for an acquisition, we may use cash on hand, cash generated from our operations, borrowings under our revolving credit facility, or we may pursue other forms of financing. Our ability to secure short-term and long-term debt or equity financing in the future, including our ability to refinance our current senior loan agreement, will depend on several factors, including our future profitability, the levels of our debt and equity, restrictions under our existing revolving line of credit with our bank, and the overall credit and equity market environments.

Share Repurchases

On October 23, 2014 and March 21, 2016, our Board of Directors authorized the repurchase of up to \$30.0 million, and \$20.0 million, respectively, of our common stock. Repurchases under these programs are discretionary and we may make such purchases under any of these programs in the open market (including under any Rule 10b5-1 plan adopted by us) or in privately negotiated transactions, in each case in accordance with applicable insider trading and other securities laws and regulations. During fiscal 2016, we repurchased and retired 783,703 shares under these programs at an average price per share of \$24.33. Approximately \$9.0 million was available for future repurchases as of December 31, 2016.

We will finance these programs with available cash, cash from future operations and funds from our existing revolving credit facility. We expect to continue to repurchase shares under these programs.

Tender Offer

On February 22, 2016, we announced the commencement of a modified “Dutch auction” self-tender offer to purchase, for cash, up to \$30.0 million in value of shares of our common stock at a price within (and including) the range of \$18.00 to \$19.75 per share. The tender offer expired on Monday, March 21, 2016. A total of 1,164 shares of common stock were tendered at the final purchase price of \$19.75 per share

Dividends to Shareholders

Our Board of Directors declared our first quarterly dividend on our common stock during 2016, and we anticipate paying regular quarterly dividends each year. These dividends are anticipated to be funded through cash flow from operations and available cash on hand. Although we anticipate paying

regular quarterly dividends on our common stock for the foreseeable future, the declaration of any future dividends is subject to the discretion of our Board of Directors.

Impact of Inflation

To date, inflation has not had a material impact on our financial results. There can be no assurance, however, that inflation will not adversely affect our financial results in the future.

Future Capital and Liquidity Needs

We anticipate that our future capital and liquidity needs will principally consist of funds required for:

- operating and general corporate expenses relating to the operation of our business, including the compensation of our employees under various annual bonus or long-term incentive compensation programs;
- the hiring of individuals to replenish and expand our employee base;
- capital expenditures, primarily for information technology equipment, office furniture and leasehold improvements;
- debt service and repayments, including interest payments on borrowings from our revolving credit facility;
- share repurchases;
- dividends to shareholders;
- potential acquisitions of businesses that would allow us to diversify or expand our service offerings;
- contingent obligations related to our acquisitions; and
- other known future contractual obligations.

The hiring of individuals to replenish and expand our employee base is an essential part of our business operations and has historically been funded principally from operations. Many of the other above activities are discretionary in nature. For example, capital expenditures can be deferred, acquisitions can be forgone, and share repurchase programs and regular dividends can be suspended. As such, our operating model provides flexibility with respect to the deployment of cash flow from operations. Given this flexibility, we believe that our cash flows from operations, supplemented by cash on hand and borrowings under our existing revolving credit facility (as necessary), will provide adequate cash to fund our long-term cash needs from normal operations for at least the next twelve months.

Our conclusion that we will be able to fund our cash requirements by using existing capital resources and cash generated from operations does not take into account the impact of any future acquisition transactions or any unexpected significant changes in the number of employees or other expenditures that are currently not contemplated. The anticipated cash needs of our business could change significantly if we pursue and complete additional business acquisitions, if our business plans change, if economic conditions change from those currently prevailing or from those now anticipated, or if other unexpected circumstances arise that have a material effect on the cash flow or profitability of our business. Any of these events or circumstances, including any new business opportunities, could involve significant additional funding needs in excess of the identified currently available sources and could require us to raise additional debt or equity funding to meet those needs on terms that may be less favorable compared to our current sources of capital. Our ability to raise additional capital, if necessary, is subject to a variety of factors that we cannot predict with certainty, including:

- our future profitability;
- the quality of our accounts receivable;

- our relative levels of debt and equity;
- the volatility and overall condition of the capital markets; and
- the market prices of our securities.

Contractual Obligations

The following table presents information about our known contractual obligations as of December 31, 2016. It does not reflect contractual obligations that may have arisen or may arise after that date. Except for historical facts, the information in this section is forward-looking information.

Contractual Obligations	Payments due by period (in thousands)				After Fiscal 2021
	Total	Fiscal 2017	Fiscal 2018-2019	Fiscal 2020-2021	
Operating lease obligations	\$96,931	\$9,078	\$18,779	\$18,232	\$50,842
Net unrecognized tax benefit obligation under topic 740(1)	953	34	836	83	—
Total	<u>\$97,586</u>	<u>\$9,112</u>	<u>\$19,615</u>	<u>\$18,315</u>	<u>\$50,544</u>

(1) This amount relates to tax and interest on tax audit liabilities.

We are party to standby letters of credit with our bank in support of the minimum future lease payments under leases for permanent office space and bonds required per the terms of certain project proposals and contracts amounting to \$2.2 million as of December 31, 2016.

Factors Affecting Future Performance

Item 1A of this annual report sets forth risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this annual report. If any of these risks, or any risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition, and results of operations could be adversely affected.

Item 7A—Quantitative and Qualitative Disclosure About Market Risk

Foreign Exchange Risk

The majority of our operations are based in the U.S. and, accordingly, the majority of our transactions are denominated in U.S. Dollars. However, we have foreign-based operations where transactions are denominated in foreign currencies and are subject to market risk with respect to fluctuations in the relative value of foreign currencies. Our primary foreign currency exposures relate to our short-term intercompany balances with our foreign subsidiaries and accounts receivable and cash valued in the United Kingdom in U.S. Dollars or Euros. Our primary foreign subsidiaries have functional currencies denominated in either the British Pound or the Euro, and foreign denominated assets and liabilities are remeasured each reporting period with any exchange gains and losses recorded in our consolidated statements of operations. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the U.S. Dollar and foreign currencies. Holding all other variables constant, fluctuations in foreign exchange rates may affect reported revenues and expenses, based on our currency exposures at December 31, 2016. A hypothetical 10% movement in foreign exchange rates on December 31, 2016 would have affected our income before provision for income taxes for the fourth quarter of fiscal 2016 by approximately \$1.0 million. However, actual gains and losses in the future could differ materially from this analysis based on the timing and amount of both foreign currency exchange rate movements and our actual exposure.

From time to time, we may use derivative instruments to manage the risk of exchange rate fluctuations. However, at December 31, 2016, we had no outstanding derivative instruments. We do not use derivative instruments for trading or speculative purposes.

Translation of Financial Results

Our foreign subsidiaries operate in a currency other than the U.S. Dollar; therefore, increases or decreases in the value of the U.S. Dollar against other major currencies will affect our operating results and the value of our balance sheet items denominated in foreign currencies. Our most significant exposures to translation risk relate to functional currency assets and liabilities that are denominated in the British Pound, and the Euro. The changes in the net investments of foreign subsidiaries whose currencies are denominated in currencies other than the U.S. Dollar for the fiscal 2016, fiscal 2015 and fiscal 2014 were losses of \$4.6 million, \$2.5 million and \$3.3 million, respectively. These translation losses are reflected in “Other comprehensive income” in our consolidated statements of comprehensive income.

Interest Rate Risk

We maintain an investment portfolio consisting mainly of commercial paper, with maturities of three months or less when purchased, and money market funds, which may be withdrawn upon request. These held-to-maturity securities are subject to interest rate risk. However, a hypothetical change in the interest rates of 10% would not have a material impact to the fair values of these securities at December 31, 2016 primarily due to their short maturity.

Item 8—Financial Statements and Supplementary Data

We have included our consolidated financial statements in this annual report on pages FS-4 - FS-29. We have provided an index to our consolidated financial statements on page FS-1.

Item 9—Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A—Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. This is done in order to ensure that information we are required to disclose in the reports that are filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2016, because of material weaknesses, described below in Management’s Report on Internal Control over Financial Reporting.

Notwithstanding the material weaknesses discussed below, management has concluded that the consolidated financial statements included in this annual report on form 10-K present fairly, in all material aspects, our financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

(b) Evaluation of Changes in Internal Control over Financial Reporting

Except for the material weaknesses described below and the ongoing remediation of the material weakness in internal controls over financial reporting related to the allocation of GNU’s net income (loss) to noncontrolling interest and other deficiencies in the financial statement close process pursuant to the plan described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended

January 2, 2016, there were no changes in our internal control over financial reporting identified in connection with the above evaluation that occurred during fiscal 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

(c) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our President and Chief Executive Officer and our Chief Financial Officer concluded that our internal control over financial reporting was not effective to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with U.S. generally accepted accounting principles as of December 31, 2016 because of the material weaknesses in internal control described in the following paragraph.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. We did not maintain internal controls that were adequately designed or executed over revenue and related reserve processes; compensation-related processes; and certain non-routine technical accounting processes.

The absence of sufficient controls creates a reasonable possibility that a material misstatement in our annual or interim consolidated financial statements would not be prevented or detected in a timely manner. Our independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on their assessment of our internal control over financial reporting. The audit report is included herein.

(d) Plan for Remediation of Material Weakness

During fiscal 2016, Management initiated a plan of remediation for the material weakness reported in our previous Form 10-K which included:

- Engaged a new third party advisory firm to assist us in the design, documentation and testing of our internal controls over financial reporting;
- Evaluated, redesigned, when necessary, and documented all financial close processes, procedures and internal controls and;
- Deployed additional resources to the financial close process to ensure that our financial statements are complete and accurate.

Additionally, in furtherance of our remediation efforts, Management will initiate remediation actions, which include, but are not limited to, the following:

- Establishment of a Special Internal Controls Committee reporting to the Audit Committee, led by our President and Chief Executive Officer, comprised of other members of senior management;
- Establishment of a Chief Accounting Officer role;
- Evaluation of policies, procedures and controls over the receipt, review and accounting for client contracts, receivables and related reserves to ensure greater oversight and transparency;
- Evaluation of policies, procedures, data and controls over the assessment, determination and documentation of management's judgments and estimates associated with compensation-related processes;

- Evaluation of internal reporting structures and deployment of additional resources to bolster our technical accounting expertise and accounting processes over revenue accounting and the other operating deficiencies in the financial close process noted to ensure that the amounts are calculated, reviewed and recorded in a timely and accurate manner.

(e) Important Considerations

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

Item 9B—Other Information

None

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of CRA International, Inc.:

We have audited CRA International, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). CRA International, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in internal controls over its accounting for revenue and related reserves processes, compensation-related processes and certain non-routine technical accounting processes. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CRA International Inc. as of December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three fiscal years in the period ended December 31, 2016. These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of the 2016 consolidated financial statements, and this report does not affect our report dated March 15, 2017, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, CRA International, Inc. has not maintained effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 15, 2017

PART III

We have omitted the information required in Part III of this annual report because we intend to include that information in our definitive proxy statement for the 2017 annual meeting of shareholders, which we expect to file within 120 days (or such greater number as permitted by SEC rules) after the end of fiscal 2016. We incorporate that information in this annual report by reference to the proxy statement to be filed in connection with the 2017 annual meeting of our shareholders, which we will refer to herein as our “2017 annual proxy statement.”

Item 10—*Directors, Executive Officers and Corporate Governance*

We incorporate the information required by this item by reference to the sections captioned “Corporate Governance” (specifically, its subsections captioned “Overview,” “Executive Officers and Directors” and “Audit Committee”), and “Section 16(a) Beneficial Ownership Reporting Compliance” in our 2017 annual proxy statement.

Item 11—*Executive Compensation*

We incorporate the information required by this item by reference to the section captioned “Compensation of Directors and Executive Officers” in our 2017 annual proxy statement.

Item 12—*Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters*

We incorporate the information required by this item by reference to the sections captioned “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plans” in our 2017 annual proxy statement.

Item 13—*Certain Relationships and Related Transactions and Director Independence*

We incorporate the information required by this item by reference to the sections captioned “Transactions with Related Parties” and “Corporate Governance” (specifically, its subsection captioned “Overview”) in our 2017 annual proxy statement.

Item 14—*Principal Accountant Fees and Services*

We incorporate the information required by this item by reference to the section captioned “Principal Accountant Fees and Services” in our 2017 annual proxy statement.

PART IV

Item 15—Exhibits and Financial Statement Schedules

(a) *Financial Statements, Schedules, and Exhibits.* We have listed our consolidated financial statements filed as part of this annual report in the index to consolidated financial statements on page FS-1. We have listed the exhibits filed as part of this annual report in the accompanying exhibit index, which follows the signature page to this annual report.

(b) *Exhibits.* We have listed the exhibits filed as part of this annual report in the accompanying exhibit index, which follows the signature page to this annual report.

(c) *Financial Statement Schedules.* We have omitted all financial statement schedules because they are not applicable or not required or because we have included the necessary information in our consolidated financial statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CRA INTERNATIONAL, INC.

By: /s/ PAUL A. MALEH

Paul A. Maleh
President, Chief Executive Officer and Director

Date: March 15, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ PAUL A. MALEH</u> Paul A. Maleh	President, Chief Executive Officer, and Director (principal executive officer)	March 15, 2017
<u>/s/ CHAD M. HOLMES</u> Chad M. Holmes	Chief Financial Officer, Executive Vice President, and Treasurer (principal financial and accounting officer)	March 15, 2017
<u>/s/ ROWLAND T. MORIARTY</u> Rowland T. Moriarty	Chairman of the Board	March 15, 2017
<u>/s/ WILLIAM F. CONCANNON</u> William F. Concannon	Director	March 15, 2017
<u>/s/ NANCY HAWTHORNE</u> Nancy Hawthorne	Director	March 15, 2017
<u>/s/ ROBERT W. HOLTHAUSEN</u> Robert W. Holthausen	Director	March 15, 2017
<u>/s/ THOMAS A. AVERY</u> Thomas A. Avery	Director	March 15, 2017
<u>/s/ WILLIAM T. SCHLEYER</u> William T. Schleyer	Director	March 15, 2017

EXHIBIT INDEX

Exhibit No.	Description	Filed with this Form 10-K	Incorporated by Reference		
			Form	Filing Date	Exhibit No.
3.1	Amended and Restated Articles of Organization.		S-1/A	April 3, 1998	3.2
3.2	Articles of Amendment to our Articles of Organization		8-K	May 11, 2005	99.1
3.3	Amended and Restated By-Laws, as amended.		8-K	January 31, 2011	3.2
4.1	Specimen certificate for common stock.		S-8	April 21, 2006	4.4
10.1*	1998 Employee Stock Purchase Plan.		S-1/A	April 3, 1998	10.2
10.2*	Amended and Restated 2006 Equity Incentive Plan, as amended		8-K	April 27, 2016	10.1
10.3*	Form of Restricted Stock Agreement for Non-Employee Director Award Pursuant to Section 6.9 of the 2006 Equity Incentive Plan.		8-K	April 27, 2006	10.2
10.4*	Form of Restricted Stock Agreement for Non-Employee Director Award Pursuant to Section 6.9 of the 2006 Equity Incentive Plan with Company Right of First Refusal.		10-K	February 12, 2009	10.9
10.5*	Form of Restricted Stock Agreement for Non-Employee Director Award Pursuant to Section 6.9 of the 2006 Equity Incentive Plan, as amended.		10-K	March 2, 2012	10.11
10.6*	Form of Restricted Stock Agreement for Employee or Independent Contractor Awards under the 2006 Equity Incentive Plan.		8-K	April 27, 2006	10.3
10.7*	Form of Restricted Stock Agreement for Employee or Independent Contractor Awards under the 2006 Equity Incentive Plan with Company Right of First Refusal.		10-K	February 12, 2009	10.11
10.8*	Form of Restricted Stock Agreement for Employee or Independent Contractor Awards under the 2006 Equity Incentive Plan with Company, as amended.		10-K	March 2, 2012	10.14
10.9	Form of Restricted Stock Agreement for Non-Employee Director Award Pursuant to Section 6.9 of the 2006 Equity Incentive Plan, as amended.	X			
10.10*	Form of Nonqualified Stock Option under the 2006 Equity Incentive Plan.		10-K	February 8, 2007	10.10
10.11*	Form of Nonqualified Stock Option under the 2006 Equity Incentive Plan with Stock Ownership Guidelines.		10-K	March 2, 2012	10.16
10.12	Form of Nonqualified Stock Option under the 2006 Equity Incentive Plan with Ownership Guidelines.	X			
10.13*	Form of Restricted Stock Unit Award Agreement under the 2006 Equity Incentive Plan.		10-K	January 29, 2010	10.14
10.14*	Form of Restricted Stock Unit Award Agreement under the 2006 Equity Incentive Plan with Stock Ownership Guidelines.		10-K	March 2, 2012	10.18
10.15	Form of Restricted Stock Unit Award Agreement under the 2006 Equity Incentive Plan with Ownership Guidelines.	X			
10.16*	Form of Restricted Stock Unit Award Agreement for Performance under the 2006 Equity Incentive Plan.		10-K	January 29, 2010	10.15
10.17*	Form of Restricted Stock Unit Award Agreement for Performance under the 2006 Equity Incentive Plan with Stock Ownership Guidelines.		10-K	March 2, 2012	10.20
10.18	Form of Restricted Stock Unit Award Agreement for Performance under the 2006 Equity Incentive Plan with Ownership Guidelines.	X			
10.19*	CRA International, Inc. Cash Incentive Plan, as amended.		8-K	December 12, 2016	10.1

Exhibit No.	Description	Filed with this Form 10-K	Incorporated by Reference		
			Form	Filing Date	Exhibit No.
10.20	Form of Service Cash Awards Agreement under the Cash Incentive Plan with Ownership Guidelines.		8-K	December 12, 2016	10.2
10.21	Form of Performance Cash Awards Agreement under the Cash Incentive Plan with Ownership Guidelines.		8-K	December 12, 2016	10.3
10.22*	Summary of Director Compensation.	X			
10.23	Lease dated February 24, 2014 by and between CRA International, Inc. and BP Hancock LLC		8-K	February 27, 2014	10.1
10.24	First Amendment to Lease dated as of February 24, 2015 by and between CRA International, Inc. and BP Hancock LLC		8-K	March 2, 2015	10.1
10.25	Office Lease dated as of November 29, 1999 between CRA and 1201 F Street, L.L.C., as amended.		10-K	February 23, 2001	10.9
10.26	Addenda Nos. 3 and 4 to Office Lease dated as of November 29, 1999 between CRA and 1201 F Street, L.L.C. (or its successor in interest, 1201 F Street, L.P.), as amended.		10-K	March 17, 2015	10.35
10.27	Addendum No. 5 to Office Lease dated as of November 29, 1999 between CRA and 1201 F Street, L.P., as amended.		8-K	December 30, 2014	10.1
10.28	Amended and Restated Addendum No. 5 to Office Lease dated as of November 29, 1999 between CRA and 1201 F Street L.P., as amended.		10-K	March 4, 2016	10.28
10.29	Agreement for Leases dated May 20, 2016 by and among Mitsubishi Estate London Limited, CRA International (UK) Limited and CRA International, Inc.		8-K	May 25, 2016	10.1
10.30	Lease relating to Unit 2, Part Ground Floor, 8 Finsbury Circus, London EC2 dated May 20, 2016 by and among Mitsubishi Estate London Limited, CRA International (UK) Limited and CRA International, Inc.		8-K	May 25, 2016	10.2
10.31	Lease relating to Fourth Floor, 8 Finsbury Circus, London EC2 dated May 20, 2016 by and among Mitsubishi Estate London Limited, CRA International (UK) Limited and CRA International, Inc.		8-K	May 25, 2016	10.3
10.32	Licence to Carry Out Works relating to Unit 2, Part Ground Floor, 8 Finsbury Circus, London EC2 dated May 20, 2016 by and among Mitsubishi Estate London Limited, CRA International (UK) Limited and CRA International, Inc.		8-K	May 25, 2016	10.4
10.33	Licence to Carry Out Works relating to Fourth Floor, 8 Finsbury Circus, London EC2 dated May 20, 2016 by and among Mitsubishi Estate London Limited, CRA International (UK) Limited and CRA International, Inc.		8-K	May 25, 2016	10.5
10.34	Side Deed dated May 20, 2016 by and among Mitsubishi Estate London Limited, CRA International (UK) Limited and CRA International, Inc.		8-K	May 25, 2016	10.6
10.35	Lease dated July 15, 2015 by and between CRA International, Inc. and 1411 ISC-Property LLC.		8-K	July 21, 2015	10.1
10.36	Form of consulting agreement with outside experts.		S-1/A	April 3, 1998	10.8
10.37	Credit Agreement dated as of April 24, 2013 by and among CRA International, Inc. and CRA International (UK) Limited, as the Borrowers, RBS Citizens, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and the Lenders party thereto.		8-K	April 30, 2013	10.1
10.38	Securities Pledge Agreement dated as of April 24, 2013 by and between CRA International, Inc., as Pledgor, and RBS Citizens, N.A., as Administrative Agent.		8-K	April 30, 2013	10.2

Exhibit No.	Description	Filed with this Form 10-K	Incorporated by Reference		
			Form	Filing Date	Exhibit No.
21.1	Subsidiaries.	X			
23.1	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.	X			
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer.	X			
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer.	X			
32.1	Section 1350 certification.	X			
101	The following financial statements from CRA International, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, formatted in XBRL (eXtensible Business Reporting Language), as follows: (i) Consolidated Statements of Operations for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, (ii) Consolidated Statements of Comprehensive Income (Loss) for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, (iii) Consolidated Balance Sheets as at December 31, 2016 and January 2, 2016, (iv) Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, , (v) Consolidated Statements of Shareholders' Equity for the fiscal years ended December 31, 2016, January 2, 2016, and January 3, 2015, and (vi) Notes to Consolidated Financial Statements.	X			

* Management contract or compensatory plan

CRA INTERNATIONAL, INC.
INDEX TO
CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	FS-2
Consolidated Statements of Operations	FS-3
Consolidated Statements of Comprehensive Income	FS-4
Consolidated Balance Sheets	FS-5
Consolidated Statements of Cash Flows	FS-6
Consolidated Statements of Shareholders' Equity	FS-7
Notes to Consolidated Financial Statements	FS-8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of CRA International, Inc.:

We have audited the accompanying consolidated balance sheets of CRA International, Inc. as of December 31, 2016 and January 2, 2016, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three fiscal years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CRA International, Inc. at December 31, 2016 and January 2, 2016, and the consolidated results of its operations and its cash flows for each of the three fiscal years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CRA International, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 15, 2017 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts
March 15, 2017

CRA INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	<u>Year Ended</u> <u>December 31,</u> <u>2016</u> <u>(52 weeks)</u>	<u>Year Ended</u> <u>January 2,</u> <u>2016</u> <u>(52 weeks)</u>	<u>Year Ended</u> <u>January 3,</u> <u>2015</u> <u>(53 weeks)</u>
	(in thousands, except per share data)		
Revenues	\$324,779	\$303,559	\$306,371
Costs of services	<u>227,380</u>	<u>207,650</u>	<u>206,813</u>
Gross profit	97,399	95,909	99,558
Selling, general and administrative expenses	70,584	72,439	69,074
Depreciation and amortization	7,896	6,552	6,443
GNU goodwill impairment	<u>—</u>	<u>4,524</u>	<u>—</u>
Income from operations	18,919	12,394	24,041
GNU gain on extinguishment of debt	—	606	—
GNU gain on sale of business assets	3,836	—	—
Interest expense, net	(469)	(538)	(431)
Other expense, net	<u>(397)</u>	<u>(647)</u>	<u>(295)</u>
Income before provision for income taxes	21,889	11,815	23,315
Provision for income taxes	<u>(7,656)</u>	<u>(5,490)</u>	<u>(9,908)</u>
Net income	14,233	6,325	13,407
Net (income) loss attributable to noncontrolling interest, net of tax	<u>(1,345)</u>	<u>1,332</u>	<u>231</u>
Net income attributable to CRA International, Inc.	<u>\$ 12,888</u>	<u>\$ 7,657</u>	<u>\$ 13,638</u>
Net income per share attributable to CRA International, Inc.:			
Basic	<u>\$ 1.50</u>	<u>\$ 0.84</u>	<u>\$ 1.40</u>
Diluted	<u>\$ 1.49</u>	<u>\$ 0.83</u>	<u>\$ 1.38</u>
Weighted average number of shares outstanding:			
Basic	<u>8,503</u>	<u>9,010</u>	<u>9,747</u>
Diluted	<u>8,601</u>	<u>9,195</u>	<u>9,897</u>

See accompanying notes to the consolidated financial statements.

CRA INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>Year Ended</u> <u>December 31,</u> <u>2016</u> <u>(52 weeks)</u>	<u>Year Ended</u> <u>January 2,</u> <u>2016</u> <u>(52 weeks)</u>	<u>Year Ended</u> <u>January 3,</u> <u>2015</u> <u>(53 weeks)</u>
	(in thousands)		
Net income	\$14,233	\$ 6,325	\$13,407
Other comprehensive income (loss):			
Foreign currency translation adjustments	<u>(4,568)</u>	<u>(2,546)</u>	<u>(3,280)</u>
Comprehensive income	9,665	3,779	10,127
Less: comprehensive (income) loss attributable to noncontrolling interest	<u>(1,345)</u>	<u>1,332</u>	<u>231</u>
Comprehensive income attributable to CRA International, Inc. . .	<u>\$ 8,320</u>	<u>\$ 5,111</u>	<u>\$10,358</u>

See accompanying notes to the consolidated financial statements.

CRA INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2016</u>	<u>January 2,</u> <u>2016</u>
	<u>(in thousands, except share data)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,530	\$ 38,139
Accounts receivable, net of allowances of \$4,253 at December 31, 2016 and \$3,648 at January 2, 2016	66,852	60,904
Unbilled services, net of allowances of \$1,720 at December 31, 2016 and \$2,354 at January 2, 2016	24,937	25,473
Prepaid expenses and other current assets	19,295	11,876
Forgivable loans	5,897	4,402
Total current assets	<u>170,511</u>	<u>140,794</u>
Property and equipment, net	36,381	31,338
Goodwill	74,764	76,970
Intangible assets, net	2,685	3,591
Deferred income taxes	10,049	18,856
Forgivable loans, net of current portion	28,065	40,283
Other assets	1,187	1,885
Total assets	<u>\$323,642</u>	<u>\$313,717</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,729	\$ 13,652
Accrued expenses	75,281	65,118
Deferred revenue and other liabilities	3,021	5,730
Current portion of deferred rent	1,499	1,069
Current portion of deferred compensation	570	814
Current portion of note payable	—	75
Total current liabilities	<u>94,100</u>	<u>86,458</u>
Non-Current liabilities:		
Deferred rent and facility-related non-current liabilities	15,191	11,836
Deferred compensation and other non-current liabilities	6,346	4,355
Deferred income taxes	122	—
Total noncurrent liabilities	<u>21,659</u>	<u>16,191</u>
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value; 25,000,000 shares authorized; 8,333,990 and 8,859,231 shares issued and outstanding at December 31, 2016 and January 2, 2016, respectively	54,124	65,731
Retained earnings	166,914	155,275
Accumulated other comprehensive loss	(13,818)	(9,250)
Total CRA International, Inc. shareholders' equity	<u>207,220</u>	<u>211,756</u>
Noncontrolling interest	663	(688)
Total shareholders' equity	<u>207,883</u>	<u>211,068</u>
Total liabilities and shareholders' equity	<u>\$323,642</u>	<u>\$313,717</u>

See accompanying notes to the consolidated financial statements.

CRA INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	<u>Year Ended</u> <u>December 31,</u> <u>2016</u> <u>(52 weeks)</u>	<u>Year Ended</u> <u>January 2,</u> <u>2016</u> <u>(52 weeks)</u>	<u>Year Ended</u> <u>January 3,</u> <u>2015</u> <u>(53 weeks)</u>
	(in thousands)		
OPERATING ACTIVITIES:			
Net income	\$ 14,233	\$ 6,325	\$ 13,407
Adjustments to reconcile net income to net cash provided by operating activities, net of effect of acquired businesses:			
Depreciation and amortization	7,875	6,542	6,438
Loss on disposal of property and equipment	2	16	28
GNU goodwill impairment	—	4,524	—
GNU gain on sale of business assets	(3,836)	—	—
Deferred rent	3,260	6,768	220
Deferred income taxes	8,399	(1,710)	(1,431)
Share-based compensation expenses	6,867	5,791	5,619
Excess tax benefits from share-based compensation	(393)	(128)	(392)
GNU gain on extinguishment of debt	—	(606)	—
Accounts receivable allowances	666	(480)	(2,996)
Changes in operating assets and liabilities:			
Accounts receivable	(8,801)	(3,438)	1,929
Unbilled services	(219)	(772)	(738)
Prepaid expenses and other current assets, and other assets	(6,439)	(2,126)	(4,465)
Forgivable loans	10,225	233	4,379
Accounts payable, accrued expenses, and other liabilities	16,324	(515)	8,152
Net cash provided by operating activities	48,163	20,424	30,150
INVESTING ACTIVITIES:			
Consideration relating to acquisitions, net	—	—	(1,784)
Purchase of property and equipment	(13,023)	(17,975)	(4,192)
Cash proceeds from sale of GNU	1,100	—	—
Collections on notes receivable	—	1,557	114
Payments on notes receivable	—	(78)	—
Net cash used in investing activities	(11,923)	(16,496)	(5,862)
FINANCING ACTIVITIES:			
Issuance of common stock, principally stock options exercises	2,853	602	469
Borrowings under line of credit	7,500	4,000	—
Payments under line of credit	(7,500)	(4,000)	—
Payments on notes payable	(75)	(300)	(26)
Tax withholding payment reimbursed by restricted shares	(1,880)	(668)	(1,222)
Excess tax benefits from share-based compensation	393	128	392
Cash dividends paid to stockholders	(1,166)	—	—
Repurchase of common stock	(19,315)	(12,806)	(25,492)
Net cash used in financing activities	(19,190)	(13,044)	(25,879)
Effect of foreign exchange rates on cash and cash equivalents	(1,659)	(944)	(1,461)
Net increase (decrease) in cash and cash equivalents	15,391	(10,060)	(3,052)
Cash and cash equivalents at beginning of period	38,139	48,199	51,251
Cash and cash equivalents at end of period	<u>\$ 53,530</u>	<u>\$ 38,139</u>	<u>\$ 48,199</u>
Noncash investing and financing activities:			
Issuance of common stock for acquired business	\$ 44	\$ 42	\$ 427
Purchases of property and equipment not yet paid for	<u>\$ 118</u>	<u>\$ 1,593</u>	<u>\$ 23</u>
Purchases of property and equipment paid by a third party	<u>\$ 92</u>	<u>\$ 2,785</u>	<u>\$ —</u>
Asset retirement obligations	<u>\$ 844</u>	<u>\$ —</u>	<u>\$ —</u>
Supplemental cash flow information:			
Cash paid for taxes	<u>\$ 6,184</u>	<u>\$ 9,688</u>	<u>\$ 15,580</u>
Cash paid for interest	<u>\$ 405</u>	<u>\$ 240</u>	<u>\$ 443</u>
Securities received from a customer for settlement of receivable	<u>\$ —</u>	<u>\$ 192</u>	<u>\$ —</u>

See accompanying notes to the consolidated financial statements.

CRA INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	CRA International, Inc. Shareholders' Equity	Noncontrolling Interest	Total Shareholders' Equity
	Shares Issued	Amount					
BALANCE AT DECEMBER 28, 2013	10,048,611	\$ 93,242	\$133,980	\$ (3,424)	\$223,798	\$ 839	\$224,637
Net income (loss)			13,638		13,638	(231)	13,407
Foreign currency translation adjustment				(3,280)	(3,280)		(3,280)
Issuance of common stock	22,520	427			427		427
Exercise of stock options	20,931	469			469		469
Share-based compensation expense for employees		5,348			5,348		5,348
Restricted shares vesting	149,195						
Redemption of vested employee restricted shares for tax withholding	(41,470)	(1,222)			(1,222)		(1,222)
Tax benefit on stock option exercises, expirations and restricted share vesting		128			128		128
Shares repurchased	(971,515)	(25,492)			(25,492)		(25,492)
Share-based compensation expense for non-employees		271			271		271
Equity transactions of noncontrolling interest.						11	11
BALANCE AT JANUARY 3, 2015	9,228,272	\$ 73,171	\$147,618	\$ (6,704)	\$214,085	\$ 619	\$214,704
Net income (loss)			7,657		7,657	(1,332)	6,325
Foreign currency translation adjustment				(2,546)	(2,546)		(2,546)
Issuance of common stock	1,359	42			42		42
Exercise of stock options	29,288	602			602		602
Share-based compensation expense for employees		5,755			5,755		5,755
Restricted shares vesting	106,504						
Redemption of vested employee restricted shares for tax withholding	(28,900)	(668)			(668)		(668)
Tax deficit on stock option exercises, expirations and restricted share vesting		(376)			(376)		(376)
Shares repurchased	(477,292)	(12,806)			(12,806)		(12,806)
Share-based compensation expense for non-employees		11			11		11
Equity transactions of noncontrolling interest.						25	25
BALANCE AT JANUARY 2, 2016	\$8,859,231	\$ 65,731	\$155,275	\$ (9,250)	\$211,756	\$ (688)	\$211,068
Net income			12,888		12,888	1,345	14,233
Foreign currency translation adjustment				(4,568)	(4,568)		(4,568)
Issuance of common stock	1,790	44			44		44
Exercise of stock options	124,931	2,853			2,853		2,853
Share-based compensation expense for employees		6,716			6,716		6,716
Restricted shares vesting	201,905						
Redemption of vested employee restricted shares for tax withholding	(69,000)	(1,880)			(1,880)		(1,880)
Tax deficit on stock option exercises, expirations and restricted share vesting		(171)			(171)		(171)
Shares repurchased	(784,867)	(19,315)			(19,315)		(19,315)
Share-based compensation expense for non-employees		146			146		146
Accrued dividends on unvested shares			(83)		(83)		(83)
Cash dividends paid to stockholders			(1,166)		(1,166)		(1,166)
Equity transactions of noncontrolling interest.						6	6
BALANCE AT DECEMBER 31, 2016	<u>8,333,990</u>	<u>\$ 54,124</u>	<u>\$166,914</u>	<u>\$(13,818)</u>	<u>\$207,220</u>	<u>\$ 663</u>	<u>\$207,883</u>

See accompanying notes to the consolidated financial statements.

CRA INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Description of Business

CRA International, Inc. (“CRA”) is a worldwide leading consulting services firm that applies advanced analytic techniques and in-depth industry knowledge to complex engagements for a broad range of clients. CRA offers services in two broad areas: litigation, regulatory, and financial consulting and management consulting. CRA operates in one business segment. CRA operates its business under its registered trade name, Charles River Associates.

Fiscal Year

CRA’s fiscal year end is the Saturday nearest December 31 of each year. CRA’s fiscal years periodically contain 53 weeks rather than 52 weeks. Fiscal 2016 and 2015 were 52-week years and fiscal 2014 was a 53-week year.

Principles of Consolidation

The consolidated financial statements include the accounts of CRA and its wholly owned subsidiaries. In addition, as more fully explained below, the consolidated financial statements include CRA’s interest in NeuCo, Inc. Effective April 13, 2016, NeuCo’s name was changed to GNU123 Liquidating Corporation (“GNU”) in connection with the sale of its assets described below. All significant intercompany transactions and accounts have been eliminated in consolidation.

GNU Interest

GNU developed and marketed a family of neural network software tools and complementary application consulting services that are currently focused on electric utilities.

CRA’s ownership interest in GNU was 55.89% for all periods presented. GNU’s financial results have been consolidated with CRA, and the portion of GNU’s results allocable to its other owners is shown as “noncontrolling interest.”

GNU’s reporting schedule is based on calendar month-ends, but its fiscal year end is the last Saturday of November. CRA’s results could include a few days reporting lag between CRA’s year end and the most recent financial statements available from GNU. CRA does not believe that the reporting lag will have a significant impact on CRA’s consolidated income statements or financial condition.

On January 8, 2015, GNU entered into an agreement to settle a note payable of approximately \$1.0 million in exchange for aggregate payments of \$0.4 million. GNU recorded a gain on the extinguishment of this debt in the first quarter of fiscal 2015 of approximately \$0.6 million. Under the settlement order, the scheduled payments were all made as of February 16, 2016.

On April 13, 2016, a buyer acquired substantially all of the business assets and assumed substantially all of the liabilities of GNU for a purchase price of \$1.35 million. Of this amount, \$1.1 million was received at closing, with the remaining \$0.25 million payable on or after April 13, 2017, subject to contingencies, as outlined in the asset purchase agreement. GNU recognized a gain on sale of its business assets of \$3.8 million during the second quarter of fiscal 2016, of which \$2.1 million is attributed to CRA.

GNU’s revenues, which are comprised of software sales and maintenance service revenue, included in our consolidated statements of operations for fiscal 2016, fiscal 2015, and fiscal 2014 totaled approximately \$0.8 million, \$3.8 million, and \$4.8 million, respectively. GNU’s total net income (loss) included in our consolidated statements of operations for fiscal 2016, fiscal 2015, and fiscal 2014 was

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately \$3.0 million, (\$3.0) million, and (\$0.5) million, respectively. GNU's net income (loss), net of amounts allocable to its other owners, included in our consolidated statements of operations for fiscal 2016, fiscal 2015, and fiscal 2014 was approximately \$1.7 million, \$1.3 million, and \$0.2 million, respectively.

In accordance with ASC Topic 350, "Intangibles—Goodwill and Other," goodwill and intangible assets with indefinite lives are monitored annually for impairment, or more frequently, as necessary, if events or circumstances exist that would more likely than not reduce the fair value of the reporting unit below its carrying amount. During the fourth quarter of fiscal 2015 it was determined that GNU's net book value exceeded its fair value of equity. Therefore, it was required to perform a step two goodwill impairment test, which resulted in an impairment charge of \$4.5 million in that quarter.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America ("U.S. GAAP") requires management to make significant estimates and judgments that affect the reported amounts of assets and liabilities, as well as the related disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of consolidated revenues and expenses during the reporting period. Estimates in these consolidated financial statements include, but are not limited to, allowances for accounts receivable and unbilled services, revenue recognition on fixed price contracts, depreciation of property and equipment, share-based compensation, valuation of acquired intangible assets, impairment of long-lived assets, goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, accrued compensation, accrued exit costs, and other accrued expenses. These items are monitored and analyzed by CRA for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. CRA bases its estimates on historical experience and various other assumptions that CRA believes to be reasonable under the circumstances. Actual results may differ from those estimates if CRA's assumptions based on past experience or other assumptions do not turn out to be substantially accurate.

Revenue Recognition

CRA derives substantially all of its revenues from the performance of professional services. The contracts that CRA enters into and operates under specify whether the engagement will be billed on a time-and-materials or a fixed-price basis. These engagements generally last three to six months, although some of CRA's engagements can be much longer in duration.

CRA recognizes substantially all of its revenues under written service contracts with its clients when the fee is fixed or determinable, as the services are provided, and only in those situations where collection from the client is reasonably assured and sufficient contractual documentation has been obtained. In certain cases CRA provides services to its clients without sufficient contractual documentation, or fees are tied to performance-based criteria, which require CRA to defer revenue in accordance with U.S. GAAP. In these cases, these amounts are fully reserved until all criteria for recognizing revenue are met.

Most of CRA's revenue is derived from time-and-materials service contracts. Revenues from time-and-materials service contracts are recognized as services are provided based upon hours worked and contractually agreed-upon hourly rates, as well as indirect fees based upon hours worked.

Revenues from the majority of CRA's fixed-price engagements are recognized on a proportional performance method based on the ratio of costs incurred, substantially all of which are labor-related, to the total estimated project costs. In general, project costs are classified as costs of services and are based on the direct salary of the consultants on the engagement plus all direct expenses incurred to

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

complete the engagement, including any amounts billed to CRA by non-employee experts. The proportional performance method is used for fixed-price contracts because reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and the terms set forth in the contract, and are indicative of the level of benefit provided to CRA's clients. Fixed-price contracts generally convert to time-and-materials contracts in the event the contract terminates. CRA's management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, management is updated on the budgeted costs and resources required to complete the project. These budgets are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. Occasionally, CRA has been required to commit unanticipated additional resources to complete projects, which has resulted in lower than anticipated income or losses on those contracts. CRA may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

Revenues also include reimbursable expenses, which include reimbursements for travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. CRA recovers approximately 90% of its out-of-pocket expenses, outside consultants, and other related expenses in performance of its services. The following expenses are subject to reimbursement (in thousands):

	<u>Year Ended</u>	<u>Year Ended</u>	<u>Year Ended</u>
	<u>December 31,</u>	<u>January 2,</u>	<u>January 3,</u>
	<u>2016</u>	<u>2016</u>	<u>2015</u>
	<u>(52 weeks)</u>	<u>(52 weeks)</u>	<u>(53 weeks)</u>
Reimbursable expenses	<u>\$34,482</u>	<u>\$33,548</u>	<u>\$36,676</u>

CRA's revenues include projects secured by its non-employee experts as well as projects secured by its employees. CRA recognizes all project revenue on a gross basis based on the consideration of the criteria set forth in Accounting Standards Codification ("ASC") Topic 605-45, *Principal Agent Considerations*.

CRA maintains accounts receivable allowances for estimated losses and disputed amounts resulting from clients' failure to make required payments. CRA bases its estimates on historical collection experience, current trends, and credit policy. In determining these estimates, CRA examines historical write-offs of its receivables and reviews client accounts to identify any specific customer collection issues.

If the financial condition of CRA's customers were to deteriorate or disputes were to arise regarding the services provided, resulting in an impairment of their ability or intent to make payment, additional allowances may be required.

Unbilled services represent revenue recognized by CRA for services performed but not yet billed to the client. Deferred revenue represents amounts billed or collected in advance of services rendered.

CRA collects goods and services and value added taxes from customers and records these amounts on a net basis, which is within the scope of ASC Topic 605-45, *Principal Agent Considerations*.

Cash and Cash Equivalents

Cash equivalents consist principally of money market funds with maturities of three months or less when purchased and are held at net asset value, which approximates fair value. As of December 31, 2016, a substantial portion of CRA's cash accounts was concentrated at a single financial institution, which potentially exposes CRA to credit risks. The financial institution has a short-term credit rating of A-2 by Standard & Poor's ratings services. CRA has not experienced any losses related to such

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

accounts. CRA does not believe that there is significant risk of non-performance by the financial institution, and its cash on deposit is fully liquid. CRA continually monitors the credit ratings of the institution.

Fair Value of Financial Instruments

Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurement), then priority to quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market (Level 2 measurement), then the lowest priority to unobservable inputs (Level 3 measurement).

The following table shows CRA’s financial instruments as of December 31, 2016 and January 2, 2016 that are measured and recorded in the consolidated financial statements at fair value on a recurring basis (in thousands):

	December 31, 2016		
	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Money market funds	\$10,024	\$—	\$ —
Total Assets	\$10,024	\$—	\$ —
<u>Liabilities:</u>			
Contingent acquisition liability	\$ —	\$—	\$549
Total Liabilities	\$ —	\$—	\$549
	January 2, 2016		
	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
	Level 1	Level 2	Level 3
<u>Assets:</u>			
Money market funds	\$6,015	\$—	\$ —
Total Assets	\$6,015	\$—	\$ —
<u>Liabilities:</u>			
Contingent acquisition liability	\$ —	\$—	\$773
Total Liabilities	\$ —	\$—	\$773

The fair values of CRA’s money market funds are based on quotes received from third-party banks.

The contingent acquisition liability in the table above is for estimated future contingent consideration payments related to a prior acquisition. The fair value measurement of this liability is based on significant inputs not observed in the market and thus represents a Level 3 measurement. The significant unobservable inputs used in the fair value measurements of this contingent acquisition

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

liability are CRA's measures of the estimated payouts based on internally generated financial projections and discount rates. The fair value of the contingent acquisition liability is reassessed on a quarterly basis by CRA using additional information as it becomes available and any change in the fair value estimate is recorded in the earnings of that period.

CRA's financial instruments, including cash, accounts receivable, loans and advances to employees and non-employee experts, accounts payable, and accrued expenses, are carried at cost, which approximates their fair value because of the short-term maturity of these instruments or because their stated interest rates are indicative of market interest rates.

Goodwill

In accordance with ASC Topic 350, "Intangibles—Goodwill and Other" ("ASC Topic 350"), goodwill and intangible assets with indefinite lives are not subject to amortization, but are monitored annually as of October 15th for impairment, or more frequently, as necessary, if events or circumstances exist that would more likely than not reduce the fair value of the reporting unit below its carrying amount. For CRA's fiscal 2016 goodwill impairment analysis, it operates under one reporting unit, which is its consulting services. Prior to April 13, 2016, CRA operated under two reporting units, which were its consulting services and GNU.

Under ASC Topic 350, in performing the first step of the goodwill impairment testing and measurement process, CRA compares the estimated value of each of its reporting units to its net book value to identify potential impairment. CRA estimates the fair value of its consulting business utilizing its market capitalization, plus an appropriate control premium, less, prior to fiscal 2016, the estimated fair value of GNU. Market capitalization is determined by multiplying CRA's shares outstanding on the test date by the market price of its common stock on that date. CRA determines the control premium utilizing data from publicly available premium studies for the trailing four quarters for public company transactions in its industry group. If the estimated fair value of a reporting unit is less than its net book value, the second step is performed to determine if goodwill is impaired. If through the impairment evaluation process a reporting unit determines that goodwill has been impaired, an impairment charge would be recorded in CRA's consolidated income statement.

The re-measurement of a reporting unit's fair value and that of its underlying assets and liabilities is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed using specific information from the reporting units. The fair value adjustment to goodwill, which resulted in GNU's impairment charge in the fourth quarter of fiscal 2015, was computed as the difference between its fair value and the fair value of its underlying assets and liabilities. The unobservable inputs used to determine the fair value of the underlying assets and liabilities were based on our specific information such as estimates of revenue and cost growth rates, profit margins, discount rates, and cost estimated. See note 3, "Goodwill and Intangible Assets," for further details.

Intangible Assets

Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and amortized over their estimated useful lives. Intangible assets consist of non-competition agreements, customer relationships, customer lists, developed technology, and trademarks, all of which are amortized on a straight-line basis over their remaining useful lives of four to ten years.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of three years for computer equipment, three to ten years for computer software, and ten years for furniture and fixtures. Amortization of leasehold

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

improvements is calculated using the straight-line method over the shorter of the lease term or the estimated useful life of the leasehold improvements. Expenditures for maintenance and repairs are expensed as incurred. Expenditures for renewals and betterments are capitalized.

Leases and Deferred Rent

CRA leases all of its office space. Leases are evaluated and classified as operating or capital leases for financial reporting purposes. For leases that contain rent escalations and rent holidays, CRA records the total rent payable during the lease term, as determined above, on a straight-line basis over the term of the lease and records the difference between the rents paid and the straight-line rent as deferred rent. Additionally, any tenant improvement allowances received from the lessor are recorded as a reduction to rent expense.

Impairment of Long-Lived Assets

CRA reviews the carrying value of its long-lived assets (primarily property and equipment and intangible assets) to assess the recoverability of these assets whenever events or circumstances indicate that impairment may have occurred. Factors CRA considers important that could trigger an impairment review include the following:

- a significant underperformance relative to expected historical or projected future operating results;
- a significant change in the manner of CRA's use of the acquired asset or the strategy for CRA's overall business; and
- a significant negative industry or economic trend.

If CRA determines that an impairment review is required, CRA would review the expected future undiscounted cash flows to be generated by the assets or asset groups. If CRA determines that the carrying value of long-lived assets or asset groups may not be recoverable, CRA would measure any impairment based on a projected discounted cash flow method using a discount rate determined by CRA to be commensurate with the risk inherent in CRA's current business model. If impairment is indicated through this review, the carrying amount of the assets would be reduced to their estimated fair value.

Concentration of Credit Risk

CRA's billed and unbilled receivables consist of receivables from a broad range of clients in a variety of industries located throughout the U.S. and in other countries. CRA performs a credit evaluation of its clients to minimize its collectability risk. Periodically, CRA will require advance payment from certain clients. However, CRA does not require collateral or other security. CRA maintains accounts receivable allowances for estimated losses and disputed amounts resulting from clients' failures to make required payments. CRA bases its estimates on historical collection experience, current trends, and credit policy. In determining these estimates, CRA examines historical write-offs of its receivables and reviews client accounts to identify any specific customer collection issues. If the financial condition of any of CRA's customers were to deteriorate or any dispute regarding CRA's services provided were to arise, resulting in an impairment of their ability or intent to make payment, additional allowances may be required.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A rollforward of the accounts receivable allowances is as follows (in thousands):

	<u>Fiscal Year</u>	<u>Fiscal Year</u>
	<u>2016</u>	<u>2015</u>
Balance at beginning of period	\$ 3,648	\$ 4,177
Increases to reserves	2,761	2,361
Amounts written off	(2,156)	(2,881)
Effects of foreign currency translation	—	(9)
Balance at end of period	<u>\$ 4,253</u>	<u>\$ 3,648</u>

A rollforward of the unbilled receivables allowances is as follows (in thousands):

	<u>Fiscal Year</u>	<u>Fiscal Year</u>
	<u>2016</u>	<u>2015</u>
Balance at beginning of period	\$ 2,354	\$ 2,233
Increases to reserves	2,102	2,832
Amounts written off	(2,736)	(2,711)
Balance at end of period	<u>\$ 1,720</u>	<u>\$ 2,354</u>

Amounts deemed uncollectible are recorded as a reduction to revenues.

Net Income (Loss) Per Share

CRA computes basic net income or loss per share by dividing net income or loss by the weighted-average number of shares outstanding. CRA computes diluted net income or loss per share by dividing net income or loss by the sum of the weighted-average number of shares determined from the basic earnings per common share computation and the number of common stock equivalents that would have a dilutive effect. To the extent that there is a net loss, CRA assumes all common stock equivalents to be anti-dilutive, and they are excluded from diluted weighted-average shares outstanding. CRA determines common stock equivalent shares outstanding in accordance with the treasury stock method. In those years in which CRA has both net income and participating securities, CRA computes basic net income per share utilizing the two-class method earnings allocation formula to determine earnings per share for each class of stock according to dividends and participation rights in undistributed earnings. Under the two-class method, basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding. CRA's participating securities consist of unvested share-based payment awards that contain a nonforfeitable right to receive dividends.

Share-Based Compensation

CRA accounts for equity-based compensation using a fair value based recognition method. Under the fair value recognition requirements of ASC Topic 718, "Compensation-Stock Compensation" ("ASC Topic 718"), share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The amount of share-based compensation expense recognized at any date must at least equal the portion of grant date value of the award that is vested at that date. In accordance with ASC Topic 718, for performance-vesting restricted stock units awarded to employees, CRA estimates share-based compensation cost at the grant date based on the fair value of the award and recognizes the cost over the requisite service period on a straight line basis.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For share-based awards granted to non-employee experts, CRA accounts for the compensation under variable accounting in accordance with ASC Topic 718 and ASC Topic 505-50, "Equity-Based Payments to Non-Employees" (formerly Emerging Issues Task Force 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services"), and recognizes the cost over the related vesting period.

Deferred Compensation

CRA accounts for performance based cash awards using a prospective accrual method. Under the requirements of ASC Topic 710, "Compensation General" ("ASC Topic 710") to the extent the terms of the contract attribute all or a portion of the expected future benefits to a period of service greater than one year, the cost of those benefits are accrued over the period of the employee or non-employee's service in a systematic and rational manner. CRA has implemented a process that requires the liability to be re-evaluated on a quarterly basis.

The required service period typically ranges from three to six years starting at the beginning of the awards performance measurement period. A recipient of such an award is expected to be affiliated with CRA for the entire service period. If a recipient terminates affiliation with CRA during the measurement period, the amount paid will be determined in accordance with the recipient's specific contract provisions.

Income Taxes

CRA accounts for income taxes using the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

In addition, the calculation of CRA's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different tax jurisdictions. CRA records liabilities for estimated tax obligations resulting in a provision for taxes that may become payable in the future in accordance with ASC Topic 740-10, "Income Taxes," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. CRA includes accrued interest and penalties, if any, related to uncertain tax positions in income tax expense.

Foreign Currency Translation

Balance sheet accounts of CRA's foreign subsidiaries are translated into U.S. dollars at year-end exchange rates and operating accounts are translated at average exchange rates for each year. The resulting translation adjustments are recorded in shareholders' equity as a component of accumulated other comprehensive income (loss). Foreign currency transactions are translated at current exchange rates, with adjustments recorded in the statement of operations. The effect of transaction gains and losses recorded in income before provision for income taxes amounted to losses of \$0.4 million, \$0.6 million and \$0.3 million for fiscal 2016, fiscal 2015, and fiscal 2014, respectively.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Standards

Leases (Topic 842)

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”). ASU 2016-02 establishes a comprehensive new lease accounting model. The new standard clarifies the definition of a lease, requires a dual approach to lease classification similar to current lease classifications, and causes lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset for leases with a lease term of more than twelve months. The new standard is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The new standard requires a modified retrospective transition for capital or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements, but it does not require transition accounting for leases that expire prior to the date of initial application. CRA has not yet determined the effects, if any, that the adoption of ASU 2016-02 may have on its financial position, results of operations, cash flows, or disclosures.

Revenue from Contracts with Customers

In August 2015, the FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (“ASU 2015-14”). ASU 2015-14 defers by one year the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). The deferral results in ASU 2014-09 being effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The main provision of ASU 2014-09 is to recognize revenue when control of the goods or services transfers to the customer, as opposed to the existing guidance of recognizing revenue when the risks and rewards transfer to the customer. The standard is expected to have an impact on the amount and timing of revenue recognized and the related disclosures on the Company’s financial statements. The Company will adopt ASU 2014-09 during the first quarter of 2018 and the Company expects to adopt this new standard using the modified retrospective method. The Company has not completed its assessment and has not yet determined whether the impact of the adoption of this standard on its financial position, results of operations, cash flows, or disclosures will be material.

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). ASU 2016-09 establishes new classification for excess tax benefits and deficiencies relating to share based payments. In addition, the new pronouncement allows for the option of estimating awards expected to vest or accounting for forfeitures when they occur. Cash paid by employers when withholding shares for tax withholding purposes will now be classified as a financing activity. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company will adopt ASU 2016-09 in its first quarter of 2017. Currently, excess tax benefits or deficiencies from the Company’s equity awards are recorded as additional paid-in capital in its Consolidated Balance Sheets. Upon adoption, the Company will record any excess tax benefits or deficiencies from its equity awards in its Consolidated Statements of Operations in the reporting periods in which vesting occurs. As a result, subsequent to

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adoption the Company's income tax expense and associated effective tax rate will be impacted by fluctuations in stock price between the grant dates and vesting dates of equity awards.

Statement of Cash Flows (Topic 230): Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"). ASU 2016-18 amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. The new standard requires cash and cash equivalents balances on the statement of cash flows to include restricted cash and cash equivalent balances. ASU 2016-18 requires the registrant to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with GAAP. Additionally, changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows. A registrant with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions. The new standard is effective for interim and annual periods beginning after December 15, 2017. CRA believes that the adoption of ASU 2016-18 will not have a material impact on its financial position, results of operations, cash flows, or disclosures.

Business Combinations (Topic 805): Clarifying the Definition of a Business

On January 5, 2017, the FASB issued a new ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* ("ASU 2017-01"). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the amendments, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. For public companies, ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. Early application of the amendments in ASU 2017-01 is allowed for transactions of which the acquisition date occurs before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued or made available for issuance; and for transactions in which a subsidiary is deconsolidated or a group of assets is derecognized that occur before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued or made available for issuance. CRA has not yet determined the effects, if any, that the adoption of ASU 2017-01 may have on the Company's financial position, results of operations, cash flows, or disclosures.

Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

On January 26, 2017, the FASB issued a new ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 simplifies the subsequent measurement of goodwill, and eliminates Step 2 from the goodwill impairment test. Under the amendments, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendment also eliminated the requirements for any reporting unit with a zero or negative carrying

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. For public companies, ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. CRA has not yet determined the effects, if any, that the adoption of ASU 2017-04 may have on the Company's financial position, results of operations, cash flows, or disclosures.

2. Forgivable Loans

In order to attract and retain highly skilled professionals, CRA may issue forgivable loans to employees and non-employee experts, certain of which loans may be denominated in local currencies. A portion of these loans is collateralized. The forgivable loans have terms that are generally between three and eight years with interest ranging up to 3.25%. The principal amount of forgivable loans and accrued interest is forgiven by CRA over the term of the loans, so long as the employee or non-employee expert continues employment or affiliation with CRA and complies with certain contractual requirements. During fiscal years 2016 and 2015, there were no balances due under these loans for which the full principal and interest were not collected. The expense associated with the forgiveness of the principal amount of the loans is recorded as compensation expense over the service period, which is consistent with the term of the loans. CRA has not typically recorded an allowance for doubtful accounts for these loans due to its collection experience and its assessment of collectability. For fiscal 2016 and fiscal 2015, no allowances or write offs of these loans were recorded.

Forgivable loan activity for fiscal years 2016 and 2015 is as follows (in thousands):

	<u>December 31, 2016</u>	<u>January 2, 2016</u>
Beginning balance	\$ 44,685	\$ 45,356
Advances	6,949	14,531
Accruals	316	—
Repayments	(709)	—
Amortization	(16,575)	(15,202)
Effects of foreign currency translation	(704)	—
Ending balance	<u>\$ 33,962</u>	<u>\$ 44,685</u>
Current portion of forgivable loans	<u>\$ 5,897</u>	<u>\$ 4,402</u>
Non-current portion of forgivable loans	<u>\$ 28,065</u>	<u>\$ 40,283</u>

3. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for fiscal 2016 and fiscal 2015 are as follows (in thousands):

	<u>Goodwill, gross</u>	<u>Accumulated impairment losses</u>	<u>Goodwill, net</u>
Balance at January 2, 2016	\$153,387	\$(76,417)	\$76,970
Effect of foreign currency translation	(2,206)	—	(2,206)
Balance at December 31, 2016	<u>\$151,181</u>	<u>\$(76,417)</u>	<u>\$74,764</u>

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Goodwill, gross	Accumulated impairment losses	Goodwill, net
Balance at January 3, 2015	\$154,196	\$(71,893)	\$82,303
Goodwill adjustments related to GNU	—	(4,524)	(4,524)
Effect of foreign currency translation	(809)	—	(809)
Balance at January 2, 2016	\$153,387	\$(76,417)	\$76,970

GNU incurred an impairment loss during the fourth quarter of fiscal 2015. GNU did not incur an impairment loss in fiscal 2016 or fiscal 2014. CRA did not incur an impairment loss during fiscal 2016, fiscal 2015 or fiscal 2014 as there were no events or circumstances that would more likely than not reduce CRA's fair value below its carrying amount, and CRA's estimated fair value was greater than its carrying value as of October 15th of each of these fiscal years.

Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and amortized over their expected useful lives. There were no impairment losses related to intangible assets during fiscal 2016, fiscal 2015, or fiscal 2014.

The components of acquired identifiable intangible assets are as follows (in thousands):

	December 31, 2016	January 2, 2016
Non-competition agreements, net of accumulated amortization of \$3,821 and \$4,064, respectively	\$ 80	\$ 129
Customer relationships, net of accumulated amortization of \$5,181 and \$4,598, respectively	2,605	3,462
Total, net of accumulated amortization of \$9,225 and \$10,454, respectively	\$2,685	\$3,591

Amortization of intangible assets was \$0.9 million, \$1.0 million, and \$1.4 million in fiscal 2016, fiscal 2015, and fiscal 2014, respectively. Amortization of intangible assets held at December 31, 2016 for the next five fiscal years is expected to be as follows (in thousands):

Fiscal Year	Amortization Expense
2017	\$ 812
2018	787
2019	542
2020	488
2021	56
	\$2,685

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 31, 2016	January 2, 2016
Computer, office equipment and software	\$ 21,779	\$ 21,920
Leasehold improvements	29,425	29,361
Furniture	8,679	6,930
Total cost	59,883	58,211
Accumulated depreciation and amortization	(23,502)	(26,873)
	\$ 36,381	\$ 31,338

Depreciation expense, including amounts recorded in costs of services, was \$7.0 million, \$5.5 million, and \$5.0 million, in fiscal 2016, fiscal 2015, and fiscal 2014, respectively.

5. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 31, 2016	January 2, 2016
Compensation and related expenses	\$67,582	\$57,963
Income taxes payable	534	323
Other	7,165	6,832
	\$75,281	\$65,118

As of December 31, 2016 and January 2, 2016, \$53.9 million and \$44.9 million, respectively, of accrued bonuses for fiscal 2016 and fiscal 2015 were included above in “Compensation and related expenses”.

6. Credit Agreement

CRA is party to a credit agreement that provides CRA with a \$125.0 million revolving credit facility and a \$15.0 million sublimit for the issuance of letters of credit. CRA may use the proceeds of the revolving credit facility to provide working capital and for other general corporate purposes. CRA may repay any borrowings under the revolving credit facility at any time, but no later than April 24, 2018. There were no borrowings outstanding under this revolving credit facility as of December 31, 2016 or January 2, 2016.

As of December 31, 2016, the amount available under this revolving credit facility was reduced by certain letters of credit outstanding, which amounted to \$2.2 million. Borrowings under the revolving credit facility bear interest at a rate per annum of either (i) the adjusted base rate, as defined in the credit agreement, plus an applicable margin, which varies between 0.50% and 1.50% depending on CRA’s total leverage ratio as determined under the credit agreement, or (ii) the adjusted eurocurrency rate, as defined in the credit agreement, plus an applicable margin, which varies between 1.50% and 2.50% depending on CRA’s total leverage ratio. CRA is required to pay a fee on the unused portion of the revolving credit facility at a rate per annum that varies between 0.25% and 0.375% depending on its total leverage ratio. Borrowings under the revolving credit facility are secured by 100% of the stock of certain of CRA’s U.S. subsidiaries and 65% of the stock of certain of its foreign subsidiaries, which

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

represent approximately \$22.6 million and \$6.0 million in net assets as of December 31, 2016 and January 2, 2016, respectively.

Under the credit agreement, CRA must comply with various financial and non-financial covenants. Compliance with these financial covenants is tested on a fiscal quarterly basis. Any indebtedness outstanding under the revolving credit facility may become immediately due and payable upon the occurrence of stated events of default, including CRA's failure to pay principal, interest or fees or a violation of any financial covenant. The financial covenants require CRA to maintain an adjusted consolidated EBITDA to consolidated interest expense ratio of more than 2.5:1.0 and to comply with a consolidated debt to adjusted consolidated EBITDA ratio of not more than 3.0:1.0. The non-financial covenant restrictions of the senior credit agreement include, but are not limited to, CRA's ability to incur additional indebtedness, engage in acquisitions or dispositions, and enter into business combinations. As of December 31, 2016, CRA was in compliance with the covenants of its credit agreement.

7. Employee Benefit Plans

CRA maintains qualified defined-contribution plans under Section 401(k) of the Internal Revenue Code, covering substantially all U.S. employees who meet specified age and service requirements. Company contributions are made at the discretion of CRA, and cannot exceed the maximum amount deductible under applicable provisions of the Internal Revenue Code. CRA also has a defined-contribution plan covering employees in the United Kingdom for which company contributions are made at the discretion of CRA. Company contributions under these plans amounted to approximately \$2.7 million, \$2.2 million, and \$1.6 million for fiscal 2016, fiscal 2015, and fiscal 2014, respectively.

8. Net Income (Loss) Per Share

CRA calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. CRA's participating securities consist of unvested share-based payment awards that contain a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders. Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. Net earnings allocable to these participating securities were not significant for fiscal 2016, fiscal 2015 or fiscal 2014.

The following table presents a reconciliation from net income to the net income available to common shareholders (in thousands):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Net income, as reported	\$12,888	\$7,657	\$13,638
Less: net income attributable to participating shares	95	59	20
Net income available to common shareholders	<u>\$12,793</u>	<u>\$7,598</u>	<u>\$13,618</u>

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For fiscal 2016, fiscal 2015 and fiscal 2014, the following is a reconciliation of basic to diluted weighted average shares of common stock outstanding (in thousands):

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Basic weighted average shares outstanding	8,503	9,010	9,747
Common stock equivalents:			
Stock options, restricted stock shares and restricted stock units	98	185	150
Diluted weighted average shares outstanding	8,601	9,195	9,897

For fiscal 2016, fiscal 2015 and fiscal 2014, the following table presents net income per share attributable to CRA:

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Basic	\$1.50	\$0.84	\$1.40
Diluted	\$1.49	\$0.83	\$1.38

For fiscal 2016, fiscal 2015 and fiscal 2014, the anti-dilutive share based awards that were excluded from the calculation of common stock equivalents for purposes of computing diluted weighted average shares outstanding amounted to 581,546, 522,593, and 764,748 shares, respectively. These share-based awards were anti-dilutive because their exercise price exceeded the average market price over the respective period.

9. Common Stock

Share-Based Compensation. Approximately \$6.7 million, \$5.8 million, and \$5.3 million of share-based compensation expense was recorded in fiscal 2016, fiscal 2015, and fiscal 2014, respectively, as an increase to common stock for share-based payment awards made to CRA's employees and directors, based on the estimated grant date fair values of stock options, shares of restricted stock, and restricted stock units vesting during the period.

CRA also recorded \$146,000, \$11,000, and \$271,000 for fiscal 2016, fiscal 2015, and fiscal 2014, respectively, in shared-based compensation expense for grants to non-employees (other than directors).

Restricted Share Vesting. In fiscal 2016, fiscal 2015, and fiscal 2014, 201,905, 106,504, and 149,195 shares of restricted stock and restricted stock units vested, respectively. CRA redeemed 69,000, 28,900, and 41,470 of these shares from their holders in order to pay \$1.9 million, \$0.7 million, and \$1.2 million, respectively, of employee tax withholdings.

Common Stock Repurchases and Retirements. On October 23, 2014 and March 21, 2016, CRA's Board of Directors authorized the repurchase of up to \$30.0 million and \$20.0 million, respectively, of CRA's common stock. Repurchases under these programs are discretionary and CRA may make such repurchases under any of these programs in the open market (including under any Rule 10b5-1 plan adopted by CRA) or in privately negotiated transactions, in each case in accordance with applicable insider trading and other securities laws and regulations. CRA records the retirement of its repurchased shares as a reduction to common stock.

During fiscal 2016, CRA repurchased and retired 783,703 shares under these share repurchase programs at an aggregate price of approximately \$19.1 million, resulting in approximately \$9.0 million available for future repurchases as of December 31, 2016. During fiscal 2015, CRA repurchased and retired 477,292 shares under these share repurchase programs at an aggregate price of approximately

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$12.8 million, resulting in approximately \$8.1 million available for future repurchases as of January 2, 2016. During fiscal 2014, CRA repurchased and retired 971,515 shares under these share repurchase programs at an aggregate price of approximately \$25.5 million, resulting in approximately \$20.9 million available for future repurchases as of January 3, 2015.

Tender Offer. During fiscal 2016, a total of 1,164 shares of common stock were tendered in conjunction with a modified “Dutch Auction” self tender offer at a purchase price of \$19.75 per share.

Exercise of Stock Options. During fiscal 2016, 124,931 options were exercised for \$2.9 million of proceeds. During fiscal 2015, 29,288 options were exercised for \$0.6 million of proceeds. During fiscal 2014, 20,931 options were exercised for \$0.5 million of proceeds.

Tax Benefits and Deficits on Stock Option Exercises and Restricted Share Vesting. In fiscal 2016 and 2015, CRA recorded a net tax deficit on stock option exercises, expirations and the vesting of shares of restricted stock and restricted stock units, as a decrease to common stock totaling \$0.2 million and \$0.4 million, respectively. In fiscal 2014, CRA recorded \$0.1 million of a net tax benefit on stock option exercises, expirations and the vesting of shares of restricted stock and restricted stock units, as an increase to common stock.

10. Share-Based Compensation

CRA recorded approximately \$6.7 million, \$5.8 million, and \$5.3 million of compensation expense for fiscal 2016, fiscal 2015, and fiscal 2014, respectively, for share-based awards consisting of stock options, shares of restricted stock, time-vesting restricted stock units, and performance-vesting restricted stock units issued to employees and directors based on their respective estimated grant date fair values. Performance-vesting restricted stock units are expensed using the graded acceleration method.

In addition, CRA recorded \$146,000, \$11,000, and \$271,000 of share-based compensation expense during fiscal 2016, fiscal 2015, and fiscal 2014, respectively, for share-based awards consisting of stock options and shares of restricted stock issued to non-employees (other than directors).

Share-based Compensation Plans. As of December 31, 2016, CRA’s active equity-based compensation plans consist of its Amended and Restated 2006 Equity Incentive Plan, as amended (the “2006 Equity Plan”), and its 1998 Employee Stock Purchase Plan (the “1998 ESPP”), a tax-qualified plan under Section 423 of the Internal Revenue Code. During fiscal 2009, CRA also implemented a long-term incentive program, or “LTIP,” as a framework for grants made under the 2006 Equity Plan to its senior corporate leaders, practice leaders and key revenue generators. Under the LTIP, participants have received a mixture of stock options, time-vesting restricted stock units, and performance-vesting restricted stock units in each fiscal year since 2009, except 2012. In December 2016, CRA’s Board of Directors amended CRA’s Cash Incentive Plan to facilitate the grant to LTIP participants of service-based and performance-based cash awards as new components of the LTIP. The LTIP is designed to reward CRA’s senior corporate leaders, practice leaders and key revenue generators and provide them with the opportunity to share in the long-term growth of CRA.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2006 Equity Plan: Maximum and Available Shares. The 2006 Equity Plan authorizes the grant of a variety of incentive and performance awards to CRA's directors, employees and independent contractors, including stock options, shares of restricted stock, restricted stock units, and other equity awards. The 2006 Equity Plan has used standard "fungibility ratios" to count grants of full-share awards (such as shares of restricted stock and restricted stock units) against the maximum number shares issuable under the plan. The current fungibility ratio, applicable to grants made on or after April 30, 2010, is 1.83. The fungibility ratio does not apply to grants of stock options. The maximum number of shares issuable under the 2006 Equity Plan is 4,874,000, consisting of (1) 500,000 shares initially reserved for issuance under the 2006 Equity Plan, (2) 1,000,000 shares that either remained for future awards under our 1998 Incentive and Nonqualified Stock Option Plan (the "1998 Option Plan") on April 21, 2006, the date CRA's shareholders initially approved the 2006 Equity Plan, or were subject to stock options issued under the 1998 Option Plan that were forfeited or terminated after April 21, 2006, (3) 210,000 shares approved by CRA's shareholders in 2008, (4) 1,464,000 shares approved by CRA's shareholders in 2010, and (5) the 2,500,000 shares approved by CRA's shareholders in 2012 reduced by the 800,000 shares cancelled by CRA's Board of Directors on April 22, 2016, as reported in the current report on Form 8-K that CRA filed on April 27, 2016. The shares available for grant under the 2006 Equity Plan as of December 31, 2016 was 60,221.

1998 Option Plan. With the adoption of the 2006 Equity Incentive Plan in 2006, CRA stopped granting awards under the 1998 Option Plan, and, as of December 31, 2016, there were no awards outstanding under the 1998 Option Plan.

2009 Nonqualified Inducement Stock Option Plan. CRA adopted its 2009 Nonqualified Inducement Stock Option Plan in 2009 (the "2009 Option Plan"). As of December 31, 2016, there were no shares available for grant, and no outstanding awards, under the 2009 Option Plan.

Stock Options. A summary of option activity during fiscal 2016 from the 2006 Equity Plan, the 2009 Option Plan and the 1998 Option Plan is as follows. The awards granted under the 2009 Option Plan and 1998 Option Plan that were outstanding at any point during fiscal 2016 all expired prior to December 31, 2016 and, as noted above, no awards were granted under the 2009 Option Plan or the 1998 Option Plan during fiscal 2016. Accordingly, all of the stock options outstanding as of December 31, 2016 were granted under the 2006 Equity Plan.

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
	(in thousands)			
Outstanding at January 2, 2016	1,206,778	\$26.36		
Fiscal 2016:				
Granted	32,000	30.96		
Exercised	(124,931)	22.83		\$ 729
Expired	(168,764)	48.95		
Forfeited	—	—		
Outstanding at December 31, 2016	<u>945,083</u>	22.95	4.09	\$12,904
Options exercisable at December 31, 2016	<u>577,963</u>	\$22.18	3.26	\$ 8,337
Vested or expected to vest at December 31, 2016	<u>939,630</u>	\$22.94	4.08	\$12,835

The weighted average fair market value using the Black-Scholes option-pricing model of the stock options granted under the 2006 Equity Incentive Plan in fiscal 2016, fiscal 2015 and fiscal 2014 was \$9.93, \$7.37 and \$12.24, respectively. The fair market value of the stock options at the date of grant

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2016	2015	2014
Risk-free interest rate	1.3%	1.4%	1.6%
Expected volatility	36%	39%	43%
Expected dividend yield	1.5%	—	—
Forfeiture rate	0.5%	1.1%	4.0%
Weighted average expected life (in years)	4.58	4.50	5.00

The risk-free interest rate is based on U.S. Treasury interest rates with corresponding terms consistent with the expected life of the stock options. Expected volatility and expected life are based on CRA's historical experience. Expected dividend yield was determined based on our annualized dividend rate per share, as a percentage of average market price of the common stock, on each dividend payment date. The forfeiture rate used was based upon historical experience. CRA believes its historical experience is an appropriate indicator of future forfeitures.

The aggregate intrinsic value of stock options exercised in fiscal 2016, fiscal 2015, and fiscal 2014 was approximately \$0.7 million, \$0.1 million, and \$0.1 million, respectively. The following table summarizes stock options outstanding and stock options exercisable under the 2006 Equity Plan as of December 31, 2016:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at December 31, 2016	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2016	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price
\$16.12 - 21.48	324,259	3.14	\$19.20	263,086	2.97	\$19.36
\$21.49 - 26.86	408,809	4.26	21.75	224,890	2.94	21.94
\$26.87 - 32.23	212,015	5.20	30.98	89,987	4.89	30.98
Total	945,083	4.09	\$22.95	577,963	3.26	\$22.18

The following table provides a roll-forward of the outstanding stock options under the 2006 Equity Incentive Plan over fiscal 2016:

	Options	
	Number of Shares	Weighted-Average Fair Value
Non-vested at January 2, 2016	505,264	\$8.75
Granted	32,000	9.93
Vested	(170,144)	8.74
Forfeited	—	—
Non-vested at December 31, 2016	367,120	\$8.86

The total fair value of stock options that vested during fiscal 2016, fiscal 2015, and fiscal 2014 was \$1.5 million, \$1.5 million, and \$1.4 million, respectively. As of December 31, 2016, there was \$3.0 million of total unrecognized compensation cost, net of expected forfeitures, related to non-vested stock options granted. That cost is expected to be recognized over a weighted-average period of 2.4 years.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock. CRA grants shares of restricted stock, which are subject to the execution of a restricted stock agreement, under its 2006 Equity Incentive Plan. Generally, shares of restricted stock vest in four equal annual installments beginning on the first anniversary of the date of grant. Total unrecognized compensation cost, net of expected forfeitures, related to shares of restricted stock as of December 31, 2016 was \$1.0 million, which is expected to be recognized over a weighted-average period of 2.6 years. The forfeiture rate of 1.2% used for shares of restricted stock was based upon historical experience. CRA believes its historical experience is an appropriate indicator of future forfeitures.

The following table provides a roll-forward of the shares of restricted stock under the 2006 Equity Incentive Plan over fiscal 2016:

	Shares of Restricted Stock	
	Number of Shares	Weighted-Average Fair Value
Non-vested at January 2, 2016	68,741	\$22.47
Granted	21,231	24.73
Vested	(27,850)	21.58
Forfeited	—	—
Non-vested at December 31, 2016	62,122	\$23.64

The total fair value of shares of restricted stock that vested during fiscal 2016, fiscal 2015, and fiscal 2014 was \$0.6 million, \$0.6 million, and \$0.6 million, respectively.

Time-Vesting RSUs. CRA grants time-vesting restricted stock units, which are subject to the execution of a restricted stock unit agreement, under its 2006 Equity Incentive Plan. Generally, time-vesting restricted stock units vest in four equal annual installments beginning on the first anniversary of the date of grant. Total unrecognized compensation cost, net of expected forfeitures, related to time-vesting restricted stock units as of December 31, 2016 was \$4.1 million, which is expected to be recognized over a weighted-average period of 2.4 years. The forfeiture rate of 1.2% used for time-vesting restricted stock units was based upon historical experience. CRA believes its historical experience is an appropriate indicator of future forfeitures.

The following table provides a roll-forward of the time-vesting restricted stock units under the 2006 Equity Incentive Plan over fiscal 2016:

	Time-Vesting Restricted Stock Units	
	Number of Units	Weighted-Average Fair Value
Non-vested at January 2, 2016	252,321	\$23.36
Granted	16,000	30.96
Vested	(83,570)	22.99
Forfeited	—	—
Non-vested at December 31, 2016	184,751	\$24.18

The total fair value of time-vesting restricted stock units that vested during fiscal 2016, fiscal 2015, and fiscal 2014 was \$1.9 million, \$1.8 million, and \$1.5 million, respectively.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Performance-Vesting RSUs. CRA grants performance-vesting restricted stock units (“PRSUs”), which are subject to the execution of a restricted stock unit agreement, under its 2006 Equity Incentive Plan. Generally, achievement of performance measures for PRSUs are based on a two year performance period, after which the units determined based on this achievement will vest three-fourths in the first year following the performance period and one-fourth on the fourth anniversary of the date of grant. The number of units determined based on the achievement of a PRSUs performance measures generally ranges from 50% to 125% of the PRSU’s target number of units.

In accordance with ASC Topic 718, for PRSUs awarded to employees, CRA estimates share-based compensation cost at the grant date based on the fair value of the award and recognizes the cost over the requisite service period using the graded acceleration method.

The following table provides a roll-forward of the performance-vesting restricted stock units under the 2006 Equity Incentive Plan over fiscal 2014, fiscal 2015 and fiscal 2016. For purposes of this table, granted PRSUs are counted based on the maximum number of units that could vest upon achievement of the PRSUs’ performance conditions which, for all periods presented, equaled 125% of the PRSU’s target number of units.

	Performance- Vesting Restricted Stock Units
	Number of Units
Non-vested at December 28, 2013	245,200
Granted	153,518
Vested	(25,336)
Forfeited	(7,914)
Non-vested at January 3, 2015	365,468
Granted	204,315
Vested	—
Forfeited	(11,624)
Non-vested at January 2, 2016	558,159
Granted	26,666
Vested	(90,485)
Forfeited	(83,187)
Non-vested at December 31, 2016	411,153

1998 ESPP. In fiscal 1998, CRA adopted the 1998 ESPP, a tax-qualified plan under Section 423 of the Internal Revenue Code. The 1998 ESPP authorizes the issuance of up to an aggregate of 243,000 shares of common stock to participating employees at a purchase price equal to 85% of fair market value on either the first or the last day of the one-year offering period under the plan. In fiscal 2016, fiscal 2015, and fiscal 2014, there were no offering periods under this plan and no shares were issued. As of December 31, 2016, 211,777 shares are available for grant under the 1998 ESPP.

Other Equity Matters. During fiscal 2016, CRA modified an award through an acceleration of the vesting schedule for a director in connection with his retirement. The modification resulted in total additional compensation cost of \$0.1 million.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Business Segment and Geographic Information

In fiscal 2016 and 2015, CRA operated in two business segments, which were consulting services and GNU. Subsequent to the sale of GNU's business assets on April 13, 2016, CRA operated in one business segment, which was consulting services. GNU's financial information is included below and is immaterial to the overall consolidated financial statements. Revenue and long-lived assets by country, based on the physical location of the operation to which the revenues or the assets relate, are as follows (in thousands):

	Fiscal Year	Fiscal Year	Fiscal Year
	2016	2015	2014
	(52 weeks)	(52 weeks)	(53 weeks)
Revenue:			
United States	\$251,962	\$243,261	\$238,466
United Kingdom	52,509	44,248	49,127
Other	20,308	16,050	18,778
Total foreign	<u>72,817</u>	<u>60,298</u>	<u>67,905</u>
	<u>\$324,779</u>	<u>\$303,559</u>	<u>\$306,371</u>
		December 31,	January 2,
		2016	2016
Long-lived assets (property and equipment, net):			
United States		\$30,735	\$29,877
United Kingdom		5,253	1,075
Other		393	386
Total foreign		<u>5,646</u>	<u>1,461</u>
		<u>\$36,381</u>	<u>\$31,338</u>

12. Income Taxes

The components of income before provision for income taxes are as follows (in thousands):

	2016	2015	2014
	(52 weeks)	(52 weeks)	(53 weeks)
Income before provision for income taxes:			
U.S.	\$16,905	\$10,565	\$20,899
Foreign	4,984	1,250	2,416
Total	<u>\$21,889</u>	<u>\$11,815</u>	<u>\$23,315</u>

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The provision (benefit) for income taxes consists of the following (in thousands):

	<u>Fiscal Year</u> <u>2016</u> <u>(52 weeks)</u>	<u>Fiscal Year</u> <u>2015</u> <u>(52 weeks)</u>	<u>Fiscal Year</u> <u>2014</u> <u>(53 weeks)</u>
Currently payable:			
Federal	\$ (770)	\$ 5,104	\$ 8,585
Foreign	664	546	876
State	<u>(637)</u>	<u>1,550</u>	<u>1,878</u>
	(743)	7,200	11,339
Deferred:			
Federal	5,562	(799)	(1,068)
Foreign	124	(307)	(505)
State	<u>2,713</u>	<u>(604)</u>	<u>142</u>
	<u>\$ 8,399</u>	<u>\$ (1,710)</u>	<u>\$ (1,431)</u>
	<u>\$ 7,656</u>	<u>\$ 5,490</u>	<u>\$ 9,908</u>

A reconciliation of CRA's tax rates with the federal statutory rate is as follows:

	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2015</u>	<u>Fiscal Year</u> <u>2014</u>
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	6.1	5.4	3.6
Tax law changes	(0.3)	—	—
Losses benefited	(5.0)	(9.2)	(1.8)
Losses not benefited	—	5.0	0.6
Foreign rate differential	(3.3)	(2.7)	0.6
Foreign tax credit	(0.7)	—	—
Uncertain tax positions	(0.2)	8.7	0.7
Nondeductible/nontaxable items	3.0	6.8	2.1
Prior period adjustments	(0.5)	(0.6)	3.0
Change in valuation allowance	0.2	(1.7)	(2.2)
GNU goodwill impairment	—	13.4	—
GNU capital gain upon distribution	1.1	—	—
GNU tax provision (benefit)	0.2	(13.6)	0.9
Other	<u>(0.6)</u>	<u>—</u>	<u>—</u>
	<u>35.0%</u>	<u>46.5%</u>	<u>42.5%</u>

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of CRA's deferred tax assets (liabilities) are as follows (in thousands):

	December 31, 2016	January 2, 2016
Deferred tax assets:		
Accrued compensation and related expense	\$16,359	\$25,148
Allowance for doubtful accounts	2,160	2,159
Net operating loss carryforwards	3,278	4,097
Accrued expenses and other	2,482	2,462
Total gross deferred tax assets	24,279	33,866
Less: valuation allowance	(2,689)	(4,003)
Total deferred tax assets net of valuation allowance	21,590	29,863
Deferred tax liabilities:		
Goodwill and other intangible asset amortization	5,670	4,715
GNU capital gain upon distribution	245	—
Property and equipment	4,495	3,723
Tax basis in excess of financial basis of convertible debentures	1,254	2,569
Total deferred tax liabilities	11,664	11,007
Net deferred tax assets	\$ 9,926	\$18,856

The net change in the total valuation allowance for fiscal 2016 was a decrease of approximately \$1.3 million compared to fiscal 2015. The \$1.3 million net decrease is comprised primarily of benefits realized for the use of net operating loss carryforwards related to current year taxable income.

At December 31, 2016, CRA had U.S. state and foreign net operating losses of \$2.1 million and \$1.7 million, respectively. The U.S. state net operating losses have lives between 10 and 20 years and begin to expire in 2026. Of the \$2.1 million of state net operating losses, \$0.7 million relate to excess tax benefits that have been excluded from the above table. The benefit of these state net operating losses will be recognized as an adjustment to retained earnings as of the beginning of fiscal 2017, coinciding with the Company's adoption of ASU 2016-09, Improvements to Employee Share Based Payment Accounting, which amends ASC 718, Compensation—Stock Compensation. Under the new guidance, excess tax benefits that were not previously recognized because the related tax deduction had not reduced current taxes payable are to be recorded on a modified retrospective basis through a cumulative effect adjustment to retained earnings as of the beginning of the period in which the new guidance is adopted.

The foreign operating losses have an indefinite life, except for \$0.03 million that will begin to expire in fiscal 2017. GNU has federal and state net operating losses of \$7.6 million and \$2.5 million, respectively, which are subject to a full valuation allowance and begin to expire in 2017. GNU files separate tax returns and none of its losses are available to offset CRA's consolidated taxable income.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate changes in the balances of gross unrecognized tax benefits were as follows (in thousands):

	December 31, 2016	January 2, 2016
Balance at beginning of period	\$1,265	\$ 535
Reductions for tax positions taken during prior years	(21)	—
Additions for tax positions taken during the current year	82	892
Settlements with tax authorities	(267)	(162)
Balance at end of the period	\$1,059	\$1,265

CRA files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. A number of years may elapse before an uncertain tax position, for which CRA has unrecognized tax benefits, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, CRA believes that its unrecognized tax benefits reflect the most likely outcome. CRA adjusts these unrecognized tax benefits, and the associated interest, in light of changing facts and circumstances. At the end of fiscal 2016, CRA had \$121,000 of interest accrued on its unrecognized tax benefit balance for a total unrecognized tax benefit balance on the balance sheet of \$1,180,000. Of the total unrecognized tax benefit balance, \$97,000 is offset by a future tax deduction when recognized. CRA reported \$20,000 of interest and penalties related to unrecognized tax benefits in income tax expense during fiscal 2016 as compared to \$18,000 during fiscal 2015. Settlement of any particular position could require the use of cash. Of the total \$1,059,000 balance at the end of fiscal 2016, a favorable resolution would result in \$874,000 being recognized as a reduction to the effective income tax rate in the period of resolution. It is reasonably likely that \$74,000 of gross unrecognized tax benefits will reverse within the next twelve months.

The number of years with open tax audits varies depending on the tax jurisdiction. CRA's major taxing jurisdiction is the United States where CRA is no longer subject to U.S. federal examinations by the Internal Revenue Service for years before fiscal 2012. Within the significant states where CRA is subject to income tax, CRA is no longer subject to examinations by state taxing authorities before fiscal 2012. CRA's United Kingdom subsidiary's corporate tax returns are no longer subject to examination by Her Majesty's Revenue and Customs for fiscal years before fiscal 2013. During this fiscal year, 2016, examination by the Internal Revenue Service for fiscal 2014 has commenced. CRA believes its reserves for uncertain tax positions are adequate.

CRA has not provided for deferred income taxes or foreign withholding taxes on undistributed earnings from its foreign subsidiaries of approximately \$4.0 million as of December 31, 2016 because such earnings are considered to be indefinitely reinvested. CRA does not rely on these unremitted earnings as a source of funds for its domestic business as it expects to have sufficient cash flow in the U.S. to fund its U.S. operational and strategic needs. If CRA were to repatriate its foreign earnings that are indefinitely reinvested, it would accrue substantially no additional tax expense.

13. Related-Party Transactions

CRA made payments to shareholders of CRA who performed consulting services exclusively for CRA in the amounts of \$9.4 million, \$11.6 million, and \$10.2 million in fiscal 2016, fiscal 2015, and fiscal 2014, respectively. These payments were to exclusive non-employee experts for consulting services performed for CRA's clients in the ordinary course of business.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Commitments and Contingencies

Operating Lease Commitments

At December 31, 2016, CRA had the following minimum rental commitments for office space and equipment leases, all of which are under non-cancelable operating leases (in thousands):

<u>Fiscal Year</u>	<u>Rental Commitments</u>
2017	\$ 9,078
2018	9,302
2019	9,477
2020	9,198
2021	9,034
Thereafter	<u>50,842</u>
	<u>\$96,931</u>

Certain office leases contain renewal options that CRA may exercise at its discretion, which were not included in the amounts above. Rent expense was approximately \$10.4 million, \$11.6 million, and \$10.0 million in fiscal 2016, fiscal 2015, and fiscal 2014, respectively.

On February 24, 2014, CRA entered into an agreement to lease 57,602 square feet of office space in Boston, Massachusetts. The lease commenced on February 1, 2015 and is set to expire on July 31, 2025. Subject to certain conditions, the lease will be extendible for two five-year periods. The annual base rent under the lease is approximately \$2.4 million for the first lease year, and is subject to annual increases of approximately 2% per annum. The performance of CRA's obligations under the lease is secured by a \$1.0 million letter of credit. On February 24, 2015, CRA signed a first amendment to lease additional office space of 10,057 square feet for a total of 67,659 square feet. The lease commenced on June 15, 2015 and is set to expire on June 30, 2020. Subject to certain conditions, the lease will be extendible for one three-year period. The annual fixed rent under the lease is approximately \$0.5 million. The original lease included a tenant improvement allowance of approximately \$4.8 million, as well as a rent abatement of approximately \$1.2 million.

On November 29, 1999, CRA entered into an agreement to lease 44,932 square feet of office space in Washington, D.C. The lease commenced on May 1, 2000 and was set to expire on February 28, 2011. The original annual base rent was approximately \$1.4 million for the first year, and subject to annual increases of approximately 2% per annum. Subsequent to entering into the lease, the original lease has had six amendments with the last being signed on July 11, 2016. The amendment consists of an additional 6,366 square feet, is set to expire on December 31, 2027, and has an annual base rent of approximately \$0.3 million for the first year, subject to increases of 2.25% per annum. The amended and restated addendum includes a tenant improvement allowance of approximately \$0.5 million and a rent abatement of approximately \$0.2 million. The performance of CRA's obligations under the lease is secured by a \$0.2 million letter of credit.

On July 15, 2015, CRA entered into an agreement to lease 25,261 square feet of office space in New York, New York. The lease commenced on August 1, 2015 with a rent commencement date of June 1, 2016. The lease will expire on May 31, 2026 and, subject to certain conditions, will be extendible for one five-year period. The annual base rent under the lease is approximately \$1.8 million per annum for the first five years of the lease's base term, and is subject to increase to \$2.0 million per annum during the remainder of the lease's base term. The lease includes a ten month base rent abatement period from lease commencement to rent commencement date for a total abatement of approximately \$1.5 million. In addition, the lease includes a tenant improvement allowance of

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approximately \$2.1 million. The performance of CRA's obligations under the lease is secured by a \$0.9 million letter of credit.

On February 14, 2008, CRA entered into an agreement to lease 36,570 square feet of office space in Chicago, Illinois. The lease commenced on April 1, 2008 with a rent commencement date of August 1, 2008. The lease will expire on July 31, 2018. The annual base rent under the lease was approximately \$1.0 million in fiscal year 2015 and is subject to 2.5% increases per annum during the remainder of the lease's term. The lease included an eight month rent abatement period from rent commencement date to March 31, 2009 for a total abatement of approximately \$0.6 million. In addition, the lease included a tenant improvement allowance of approximately \$2.4 million.

On October 26, 2006, CRA entered into an agreement to lease 32,168 square feet of office space in London, UK for the 24th, 25, and 26th floors. The leases commenced on March 1, 2007 for the 25th and 26th floors and November 1, 2007 for the 24th floor. The 24th floor lease terminated on June 30, 2012. The 25th and 26th floor terminated on October 2, 2016. In 2015, the base rent was approximately £1.2 million.

On May 20, 2016, CRA entered into an agreement to lease 23,035 square feet of office space in London, UK for the 4th and ground floors. The leases for both floors expire on May 19, 2031. The initial base rent for the two floors is approximately £1.6 million per year, and is subject to increase every five years, based on rental market conditions at that time. At the end of the leases, CRA will be responsible to return the vacated floors to original condition at CRA's expense.

Other

CRA is party to standby letters of credit with its bank in support of the minimum future lease payments under leases for permanent office space and bonds required per the terms of certain project proposals and contracts amounting to \$2.2 million as of December 31, 2016.

Contingencies

CRA's contingent consideration obligation relating to a previous acquisition amounted to \$0.5 million and \$0.8 million at December 31, 2016 and January 2, 2016, respectively. The amount of this obligation is computed based on the likelihood of achieving certain forecasted revenues over the contractual measurement period. The liability is re-measured on a quarterly basis.

CRA is subject to legal actions arising in the ordinary course of business. In management's opinion, CRA believes it has adequate legal defenses and/or insurance coverage with respect to the eventuality of such actions. CRA does not believe any settlement or judgment relating to any pending legal action would materially affect its financial position or results of operations.

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Quarterly Financial Data (Unaudited)

	Quarter Ended			
	April 2, 2016	July 2, 2016	October 1, 2016	December 31, 2016
	(In thousands, except per share data)			
Revenues	\$80,912	\$82,607	\$81,691	\$79,569
Gross profit	25,397	24,657	23,859	23,486
Income from operations	4,326	5,680	5,297	3,615
Income before provision for income taxes	4,185	9,269	5,060	3,375
Net income	2,239	6,767	3,151	2,076
Net (income) loss attributable to noncontrolling interest, net of tax	184	(1,552)	42	(18)
Net income attributable to CRA				
International, Inc.	\$ 2,423	\$ 5,215	\$ 3,193	\$ 2,058
Basic net income per share	\$ 0.27	\$ 0.60	\$ 0.39	\$ 0.25
Diluted net income per share	\$ 0.27	\$ 0.59	\$ 0.38	\$ 0.24
Weighted average number of shares outstanding:				
Basic	8,871	8,695	8,177	8,269
Diluted	8,927	8,779	8,309	8,443

	Quarter Ended			
	April 4, 2015	July 4, 2015	October 3, 2015	January 2, 2016
	(In thousands, except per share data)			
Revenues	\$78,039	\$76,535	\$76,525	\$72,460
Gross profit	24,220	25,860	24,496	21,333
Income (loss) from operations	4,476	5,648	4,581	(2,310)
Income (loss) before provision for income taxes . . .	4,631	5,391	4,346	(2,553)
Net income (loss)	2,899	3,202	2,813	(2,589)
Net (income) loss attributable to noncontrolling interest, net of tax	(120)	123	47	1,282
Net income (loss) attributable to CRA				
International, Inc.	\$ 2,779	\$ 3,325	\$ 2,860	\$(1,307)
Basic net income (loss) per share	\$ 0.30	\$ 0.37	\$ 0.32	\$ (0.15)
Diluted net income (loss) per share	\$ 0.30	\$ 0.36	\$ 0.31	\$ (0.15)
Weighted average number of shares outstanding:				
Basic	9,190	9,034	8,940	8,876
Diluted	9,403	9,253	9,025	8,876

Total net income (loss) per share was computed using the two-class method earnings allocation formula when there were earnings to distribute to participating securities in a given quarter. In those quarters above that include a net loss for the quarter, the two-class method would not apply. As such, the aggregate net income (loss) per share for fiscal 2015 as a whole would not agree in the aggregate with the quarterly information presented above.

During the fourth quarter of fiscal 2015, GNU incurred an impairment loss of \$4.5 million. After considering taxes and allocation of net losses to noncontrolling interest, the net charge amounted to \$1.6 million.

During the fourth quarter of fiscal 2015, CRA identified a prior period error, relating to client reimbursable revenue and expenses, and recorded an adjustment of \$0.7 million to revenue and

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

\$0.3 million to pre-tax income to correct this error. CRA concluded that this error was not material to its prior reporting periods.

16. Subsequent Events

On January 30, 2017, CRA acquired substantially all of the business assets and assumed certain liabilities of C1 Consulting, LLC and its wholly owned Swiss subsidiary, C1 Associates GmbH. With this acquisition CRA welcomed 86 new colleagues and provided CRA with new offices in San Francisco, California; Summit, New Jersey; and Lucerne, Switzerland, and added staff to CRA's Boston and New York City locations. The transaction was paid for with a combination of cash and shares of CRA common stock. Depending on the achievement of certain milestones, CRA may pay additional consideration. The fair value of the assets acquired and the liabilities assumed as part of the acquisition will be finalized as we receive other information relevant to the acquisition and complete our analysis of other transaction-related costs. The acquisition will be accounted for under the purchase method of accounting, and the results of operations will be included in the Company's statements of operations from the date of acquisition.

On February 2, 2017, the Compensation Committee of the Board of Directors approved the Long-Term Incentive Plan for 2017 and related grants. The 2017 LTIP provides participants with a mixture of time-vested restricted stock units, time-vested cash awards and/or performance-based cash awards.

On February 15, 2017, CRA entered into an agreement to lease 5,578 square feet of office space in Toronto, Ontario, Canada. The lease will commence on November 1, 2017 and is set to expire on October 31, 2027. The annual base rent is approximately \$0.1 million for the first lease year, and is subject to annual increases of approximately 2% per annum.

On February 16, 2017, CRA's Board of Directors declared a quarterly cash dividend of \$0.14 per common share, payable on March 17, 2017 to shareholders of record as of February 27, 2017.