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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2017

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-24049

**CRA International, Inc.**

(Exact name of registrant as specified in its charter)

**Massachusetts**

(State or other jurisdiction of  
incorporation or organization)

**04-2372210**

(I.R.S. Employer Identification No.)

**200 Clarendon Street, Boston, MA**

(Address of principal executive offices)

**02116-5092**

(Zip Code)

**(617) 425-3000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 25, 2017
Common Stock, no par value per share	8,109,135 shares

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**CRA International, Inc.**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. Financial Statements

#### CRA International, Inc.

#### Condensed Consolidated Income Statements (unaudited)

(In thousands, except per share data)

	Quarter Ended		Fiscal Year-to-Date Period Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Revenues . . . . .	\$91,325	\$81,691	\$273,059	\$245,210
Costs of services (exclusive of depreciation and amortization) . . . . .	62,422	57,832	190,223	171,297
Selling, general and administrative expenses . . . . .	20,803	16,671	59,778	52,748
Depreciation and amortization . . . . .	2,453	1,891	6,652	5,861
Income from operations . . . . .	5,647	5,297	16,406	15,304
GNU gain on sale of business assets . . . . .	—	—	250	3,836
Interest expense, net . . . . .	(116)	(129)	(361)	(356)
Other income (expense), net . . . . .	4	(108)	(233)	(270)
Income before provision for income taxes . . . . .	5,535	5,060	16,062	18,514
Provision for income taxes . . . . .	(2,310)	(1,909)	(6,100)	(6,357)
Net income . . . . .	3,225	3,151	9,962	12,157
Net (income) loss attributable to noncontrolling interest, net of tax . . . . .	(11)	42	(82)	(1,327)
Net income attributable to CRA International, Inc. . .	<u>\$ 3,214</u>	<u>\$ 3,193</u>	<u>\$ 9,880</u>	<u>\$ 10,830</u>
Net income per share attributable to CRA International, Inc:				
Basic . . . . .	<u>\$ 0.39</u>	<u>\$ 0.39</u>	<u>\$ 1.18</u>	<u>\$ 1.25</u>
Diluted . . . . .	<u>\$ 0.38</u>	<u>\$ 0.38</u>	<u>\$ 1.15</u>	<u>\$ 1.24</u>
Weighted average number of shares outstanding:				
Basic . . . . .	<u>8,149</u>	<u>8,177</u>	<u>8,332</u>	<u>8,581</u>
Diluted . . . . .	<u>8,353</u>	<u>8,309</u>	<u>8,530</u>	<u>8,653</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Statements of Comprehensive Income (unaudited)**  
*(In thousands)*

	Quarter Ended		Fiscal Year-to-Date Period Ended	
	September 30, 2017	October 1, 2016	September 30 2017	October 1, 2016
Net income . . . . .	\$3,225	\$3,151	\$ 9,962	\$12,157
Other comprehensive (loss) income:				
Foreign currency translation adjustments . . . . .	1,274	(608)	3,611	(2,523)
Comprehensive income . . . . .	4,499	2,543	13,573	9,634
Less: comprehensive (income) loss attributable to noncontrolling interest . . . . .	(11)	42	(82)	(1,327)
Comprehensive income attributable to CRA International, Inc. . . . .	<u>\$4,488</u>	<u>\$2,585</u>	<u>\$13,491</u>	<u>\$ 8,307</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Balance Sheets (unaudited)**  
*(In thousands, except share data)*

	<u>September 30, 2017</u>	<u>December 31, 2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 20,899	\$ 53,530
Accounts receivable, net of allowances of \$7,486 at September 30, 2017 and \$4,253 at December 31, 2016 . . . . .	76,819	66,852
Unbilled services, net of allowances of \$2,531 at September 30, 2017 and \$1,720 at December 31, 2016 . . . . .	41,536	24,937
Prepaid expenses and other current assets . . . . .	12,211	19,295
Forgivable loans . . . . .	6,474	5,897
Total current assets . . . . .	157,939	170,511
Property and equipment, net . . . . .	41,062	36,381
Goodwill . . . . .	88,529	74,764
Intangible assets, net . . . . .	9,867	2,685
Deferred income taxes . . . . .	10,105	10,049
Forgivable loans, net of current portion . . . . .	25,388	28,065
Other assets . . . . .	1,530	1,187
Total assets . . . . .	<u>\$334,420</u>	<u>\$323,642</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 17,162	\$ 13,729
Accrued expenses . . . . .	74,285	75,281
Deferred revenue and other liabilities . . . . .	3,980	3,021
Current portion of deferred rent . . . . .	1,110	1,499
Current portion of deferred compensation . . . . .	851	570
Total current liabilities . . . . .	97,388	94,100
Non-current liabilities:		
Deferred rent and facility-related non-current liabilities . . . . .	18,790	15,191
Deferred compensation and other non-current liabilities . . . . .	9,710	6,346
Deferred income taxes . . . . .	355	122
Total non-current liabilities . . . . .	28,855	21,659
Commitments and contingencies (Note 16)		
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; 8,055,783 shares and 8,333,990 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively . . . . .	44,520	54,124
Retained earnings . . . . .	173,119	166,914
Accumulated other comprehensive loss . . . . .	(10,207)	(13,818)
Total CRA International, Inc. shareholders' equity . . . . .	207,432	207,220
Noncontrolling interest . . . . .	745	663
Total shareholders' equity . . . . .	208,177	207,883
Total liabilities and shareholders' equity . . . . .	<u>\$334,420</u>	<u>\$323,642</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**  
*(In thousands)*

	<b>Fiscal Year-to-Date Period Ended</b>	
	<b>September 30, 2017</b>	<b>October 1, 2016</b>
<b>Operating activities:</b>		
Net income	\$ 9,962	\$ 12,157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,636	5,848
Loss on disposal of property and equipment	10	3
Impairment of intangible assets	523	—
GNU gain on sale of business assets	(250)	(3,836)
Deferred rent	1,316	3,250
Deferred income taxes	230	886
Share-based compensation expenses	4,633	4,791
Excess tax benefits from share-based compensation	—	(55)
Accounts receivable allowances	3,166	(247)
Changes in operating assets and liabilities:		
Accounts receivable	(11,600)	(3,627)
Unbilled services	(15,533)	(11,874)
Prepaid expenses and other current assets, and other assets	6,505	1,588
Forgivable loans	2,418	7,743
Incentive cash awards	956	—
Accounts payable, accrued expenses, and other liabilities	(1,181)	(414)
Net cash provided by operating activities	7,791	16,213
<b>Investing activities:</b>		
Cash consideration paid for acquisitions	(16,163)	—
Purchases of property and equipment	(5,366)	(11,808)
GNU cash proceeds from sale of business assets	250	1,100
Net cash used in investing activities	(21,279)	(10,708)
<b>Financing activities:</b>		
Issuance of common stock, principally stock option exercises	2,950	1,448
Payments on notes payable	—	(75)
Borrowings under line of credit	11,500	7,500
Repayments under line of credit	(11,500)	(7,500)
Tax withholding payments reimbursed by restricted shares	(703)	(490)
Excess tax benefits from share-based compensation	—	55
Cash paid on dividend equivalents	(25)	—
Cash dividends paid to stockholders	(3,529)	—
Repurchases of common stock	(19,528)	(19,318)
Net cash used in financing activities	(20,835)	(18,380)
Effect of foreign exchange rates on cash and cash equivalents	1,692	(80)
Net decrease in cash and cash equivalents	(32,631)	(12,955)
Cash and cash equivalents at beginning of period	53,530	38,139
Cash and cash equivalents at end of period	<u>\$ 20,899</u>	<u>\$ 25,184</u>
<b>Noncash investing and financing activities:</b>		
Issuance of common stock for acquired business	<u>\$ 3,044</u>	<u>\$ 44</u>
Purchases of property and equipment not yet paid for	<u>\$ 2,568</u>	<u>\$ 1,234</u>
Purchases of property and equipment paid by a third party	<u>\$ 1,640</u>	<u>\$ —</u>
Asset retirement obligations	<u>\$ —</u>	<u>\$ 1,479</u>
<b>Supplemental cash flow information:</b>		
Cash paid for income taxes	<u>\$ 7,297</u>	<u>\$ 3,959</u>
Cash paid for interest	<u>\$ 248</u>	<u>\$ 327</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Statement of Shareholders' Equity (unaudited)**  
*(In thousands, except share data)*

	<b>Common Stock</b>		<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>CRA International, Inc.</b>	<b>Noncontrolling Interest</b>	<b>Total Shareholders' Equity</b>
	<b>Shares Issued</b>	<b>Amount</b>			<b>Shareholders' Equity</b>		
<b>BALANCE AT DECEMBER 31, 2016</b>	8,333,990	\$ 54,124	\$166,914	\$(13,818)	\$207,220	\$663	\$207,883
Net income . . . . .	—	—	9,880	—	9,880	82	9,962
Foreign currency translation adjustment . . . . .	—	—	—	3,611	3,611	—	3,611
Issuance of common stock for acquired businesses . . . . .	89,312	3,044	—	—	3,044	—	3,044
Exercise of stock options . . . . .	133,955	2,950	—	—	2,950	—	2,950
Share-based compensation expense for employees . . . . .	—	4,540	—	—	4,540	—	4,540
Restricted share and unit vestings . .	72,753	—	—	—	—	—	—
Redemption of vested employee restricted shares for tax withholding . . . . .	(19,519)	(703)	—	—	(703)	—	(703)
Cumulative effect of a change in accounting principle related to ASU 2016-09 . . . . .	—	—	48	—	48	—	48
Shares repurchases . . . . .	(554,708)	(19,528)	—	—	(19,528)	—	(19,528)
Share-based compensation expense for non-employees . . . . .	—	93	—	—	93	—	93
Accrued dividends on unvested units	—	—	(169)	—	(169)	—	(169)
Cash paid on dividend equivalents . .	—	—	(25)	—	(25)	—	(25)
Cash dividends paid to stockholders .	—	—	(3,529)	—	(3,529)	—	(3,529)
<b>BALANCE AT SEPTEMBER 30, 2017 . . . . .</b>	<u>8,055,783</u>	<u>\$ 44,520</u>	<u>\$173,119</u>	<u>\$(10,207)</u>	<u>\$207,432</u>	<u>\$745</u>	<u>\$208,177</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. 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.

**2. Basis of Presentation and Estimates**

The accompanying unaudited condensed consolidated financial statements reflect the results of operations, financial position, cash flows, and stockholders’ equity as of and for the fiscal quarters and year-to-date periods ended September 30, 2017 and October 1, 2016, respectively. These financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for Quarterly Reports on Form 10-Q. Accordingly, these financial statements do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for annual financial statements. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair statement of CRA’s results of operations, financial position, cash flows, and stockholders’ equity for the interim periods presented in conformity with GAAP. Results of operations for the interim periods presented herein are not necessarily indicative of results of operations for a full year. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended December 31, 2016, included in our Annual Report on Form 10-K, filed with the SEC on March 15, 2017.

The preparation of financial statements in conformity with 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 condensed 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.

**3. Principles of Consolidation**

The condensed consolidated financial statements include the accounts of CRA and its wholly owned subsidiaries. In addition, the condensed consolidated financial statements include CRA’s interest in GNU123 Liquidating Corporation (“GNU”, formerly known as NeuCo Inc.). All significant intercompany transactions and accounts have been eliminated.



**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**3. Principles of Consolidation (Continued)**

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 interim reporting schedule is based on calendar month-ends, but its fiscal year end is the last Saturday of November. CRA's quarterly results could include a few days reporting lag between CRA's quarter 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 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, which remaining amount was paid in full on May 3, 2017. GNU recognized a gain on sale of its business assets of \$0.25 million during the second quarter of fiscal 2017, of which \$0.14 million is attributed to CRA, and \$3.8 million during the second quarter of fiscal 2016, of which \$2.1 million is attributed to CRA.

**4. Recent Accounting Standards Adopted**

*Improvements to Employee Share-Based Payment Accounting*

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 requires all of the tax effects related to share-based payments to be recorded through the income statement. The new pronouncement also allows for the option of estimating awards expected to vest or accounting for forfeitures when they occur. In the statement of cash flows, cash paid by employers when withholding shares for tax withholding purposes should be classified as a financing activity whereas cash flows resulting from excess tax benefits should be reported in operating activities. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Accordingly, CRA adopted ASU No. 2016-09 on January 1, 2017, resulting in the recognition of a tax benefit of \$0.5 million to retained earnings as of that date. CRA had traditionally classified employee taxes paid through employer share withholdings as financing activities, therefore no further adjustment was necessary. CRA has classified the excess tax benefits from share-based compensation as operating activities on a prospective basis beginning in the quarter ended April 1, 2017. Additionally, CRA did not make any changes to its accounting for forfeitures and continues to estimate forfeitures based on historical experience.

**5. Recent Accounting Standards Not Yet Adopted**

*Revenue from Contracts with Customers*

In August 2015, 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

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**5. Recent Accounting Standards Not Yet Adopted (Continued)**

years, beginning after December 15, 2017. 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 CRA's financial statements. CRA will adopt ASU 2014-09 effective January 1, 2018 and CRA expects to adopt this new standard using the modified retrospective method, which requires a cumulative-effect adjustment to retained earnings in the period of adoption. CRA currently anticipates that the most significant impact to adopting this guidance will occur with contracts which include variable consideration. The adoption of ASU 2014-09 will not have a material impact on CRA's consolidated financial position, results of operations, equity or cash flows.

*Leases (Topic 842)*

In February 2016, the 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.

*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.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**5. Recent Accounting Standards Not Yet Adopted (Continued)**

*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 its 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 gives the option to eliminate 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. CRA has not yet determined the effects, if any, that the adoption of ASU 2017-04 may have on its financial position, results of operations, cash flows, or disclosures.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**5. Recent Accounting Standards Not Yet Adopted (Continued)**

*Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting*

On May 10, 2017, the FASB issued a new ASU No. 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”). ASU 2017-09 updates guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Under the amendments, an entity should account for the effects of a modification unless all the following conditions are met. First, the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification. Second, the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified. Third, the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The new standard is effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for public entities for reporting periods for which financial statements have not yet been issued. CRA will adopt ASU 2017-09 during the first quarter of 2018. CRA has not completed its assessment of this standard 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.

**6. Business Acquisitions**

On January 30, 2017, CRA acquired substantially all of the assets and assumed certain liabilities of C1 Consulting LLC, an independent consulting firm, and its wholly-owned subsidiary C1 Associates (collectively, “C1”) for initial consideration comprised of cash and CRA restricted common stock. The asset purchase agreement provided for additional purchase consideration to be paid for up to four years following the transaction in the form of an earnout, if specific performance targets are met. These earnout payments are payable in cash and CRA restricted common stock. The fair value of this obligation was measured as of the acquisition date and accounted for as a component of the purchase consideration, any adjustments to this initial valuation in future accounting periods will be reported as an adjustment to net income.

C1 provides management consulting services in the life sciences industry, and has built a reputation for its specialty consulting services. Acquiring C1 will assist CRA in expanding its geographical presence in the western part of the United States and Europe, servicing CRA's existing life sciences customers more efficiently, and providing opportunities to engage with new clients in both the United States and European markets.

The acquisition has been accounted for under the purchase method of accounting, and C1's results of operations have been included in the accompanying condensed consolidated income statements from the date of acquisition. The following is a preliminary allocation of the purchase price to the estimated fair value of assets acquired and liabilities assumed. The allocation of the purchase price will be finalized as CRA receives additional information relevant to the acquisition and completes its analysis of transaction-related activities. The final purchase price allocation may be different from the

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**6. Business Acquisitions (Continued)**

preliminary estimate reported, the impact of which is not expected to be material to CRA's results of operations for fiscal 2017.

The following table shows CRA's acquired assets and liabilities assumed from the purchase of C1 Consulting (in thousands):

**Assets Acquired:**

**Current assets:**

Accounts receivable and unbilled receivables . . . . .	\$ 3,820
Other current assets . . . . .	10
Total current assets . . . . .	<u>3,830</u>
Property and equipment . . . . .	206
Other non-current assets . . . . .	106
Intangible assets . . . . .	8,800
Goodwill . . . . .	<u>12,626</u>
Total assets acquired . . . . .	<u><u>\$25,568</u></u>

**Liabilities Assumed:**

**Current liabilities:**

Deferred revenue . . . . .	\$ 3,396
Accrued expenses and other current liabilities . . . . .	652
Total current liabilities . . . . .	4,048
Contingent consideration . . . . .	<u>2,357</u>
Total liabilities assumed . . . . .	<u>6,405</u>
Net assets acquired . . . . .	<u><u>\$19,163</u></u>

The intangible assets acquired are comprised of non-compete agreements and the value of customer relationships, the fair value of which was determined using the incremental income method and multi-period excess earnings method, respectively. The non-compete agreements are being amortized over the stated term of five years on a straight-line basis. The customer relationships intangible is being amortized over a ten year life on a straight-line basis, which approximates the expected pattern of economic benefit from this asset. The fair value of the contingent consideration was determined using a monte carlo simulation and will be accreted over the liabilities' measurement period to its expected future payment value on a straight-line basis. The fair value of the contingent acquisition liability will be reassessed on a quarterly basis by CRA using additional information as it becomes available, and any change in the fair value estimate will be recorded in the earnings of that period.

Transaction related costs, which are principally legal and accounting service fees, amount to \$0.5 million for the fiscal year-to-date period ended September 30, 2017 and are included in selling, general and administrative expenses on the condensed consolidated income statement.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**7. Cash and Cash Equivalents**

Cash equivalents consist principally of money market funds with maturities of three months or less when purchased. As of September 30, 2017, a substantial portion of CRA's cash accounts were 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 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.

**8. 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 September 30, 2017 and December 31, 2016 that are measured and recorded in the financial statements at fair value on a recurring basis (in thousands):

	September 30, 2017		
	Quoted Prices in Active Markets for Identical Assets or Liabilities	Significant Other Observable Inputs	Significant Unobservable Inputs
	Level 1	Level 2	Level 3
<i>Assets:</i>			
Money market funds . . . . .	\$ 5	\$—	\$ —
Total Assets . . . . .	<u>\$ 5</u>	<u>\$—</u>	<u>\$ —</u>
<i>Liabilities:</i>			
Contingent consideration liability . . . . .	\$—	\$—	\$3,375
Total Liabilities . . . . .	<u>\$—</u>	<u>\$—</u>	<u>\$3,375</u>

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**8. Fair Value of Financial Instruments (Continued)**

	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
<i>Assets:</i>			
Money market funds . . . . .	\$10,024	\$—	\$ —
Total Assets . . . . .	<u>\$10,024</u>	<u>\$—</u>	<u>\$ —</u>
<i>Liabilities:</i>			
Contingent consideration liability . . . . .	\$ —	\$—	\$549
Total Liabilities . . . . .	<u>\$ —</u>	<u>\$—</u>	<u>\$549</u>

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

The contingent consideration liabilities in the tables above are for estimated future contingent consideration payments related to prior acquisitions. The fair value measure of these liabilities are based on significant inputs not observed in the market and thus represent Level 3 measurement. The significant unobservable inputs used in the fair value measurements of these contingent acquisition liabilities are CRA's measures of the estimated payouts based on internally generated financial projections and discount rates. The fair value of these contingent acquisition liabilities are reassessed on a quarterly basis by CRA using additional information as it becomes available, and any change in the fair value estimates are recorded in the earnings of that period.

The following table summarizes the changes in the contingent consideration liabilities over the fiscal year-to-date period ended September 30, 2017 and the fiscal year ended December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Beginning balance . . . . .	\$ 549	\$ 773
Acquisitions . . . . .	2,357	—
Remeasurement of acquisition-related contingent consideration . . . . .	(296)	71
Accretion . . . . .	1,018	—
Payments . . . . .	(299)	(292)
Effects of foreign currency translation . . . . .	46	(3)
Ending balance . . . . .	<u>\$3,375</u>	<u>\$ 549</u>



**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**9. Forgivable Loans**

Forgivable loan activity for the fiscal year-to-date period ended September 30, 2017 and the fiscal year ended December 31, 2016 is as follows (in thousands):

	September 30, 2017	December 31, 2016
Beginning balance . . . . .	\$ 33,962	\$ 44,685
Advances . . . . .	10,134	6,949
Accruals . . . . .	670	316
Repayments . . . . .	(1,884)	(709)
Reclassification to other receivables . . . . .	(1,102)	—
Amortization . . . . .	(10,293)	(16,575)
Effect of foreign currency translation . . . . .	375	(704)
Ending balance . . . . .	<u>\$ 31,862</u>	<u>\$ 33,962</u>
Current portion of forgivable loans . . . . .	<u>\$ 6,474</u>	<u>\$ 5,897</u>
Non-current portion of forgivable loans . . . . .	<u>\$ 25,388</u>	<u>\$ 28,065</u>

**10. Goodwill and Intangible Assets**

The changes in the carrying amount of goodwill during the fiscal year-to-date period ended September 30, 2017, are as follows (in thousands):

	Goodwill, gross	Accumulated impairment losses	Goodwill, net
Balance at December 31, 2016 . . . . .	\$151,181	\$(76,417)	\$74,764
Goodwill adjustment related to acquisition . . . . .	12,626	—	12,626
Effect of foreign currency translation . . . . .	1,139	—	1,139
Balance at September 30, 2017 . . . . .	<u>\$164,946</u>	<u>\$(76,417)</u>	<u>\$88,529</u>

Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and amortized over their expected useful lives. There were impairment losses of \$0.5 million related to intangible assets during the fiscal year-to-date period ended September 30, 2017. There were no impairment losses related to intangible assets during the fiscal year ended December 31, 2016.

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

	September 30, 2017	December 31, 2016
Non-competition agreements, net of accumulated amortization of \$437 and \$3,821, respectively . . . . .	\$ 286	\$ 80
Customer relationships, net of accumulated amortization of \$2,838 and \$5,181, respectively . . . . .	9,581	2,605
Total, net of accumulated amortization . . . . .	<u>\$9,867</u>	<u>\$2,685</u>



**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**11. Accrued Expenses**

Accrued expenses consist of the following (in thousands):

	September 30, 2017	December 31, 2016
Compensation and related expenses .....	\$60,254	\$67,582
Income taxes payable .....	465	534
Other .....	13,566	7,165
Total .....	<u>\$74,285</u>	<u>\$75,281</u>

As of September 30, 2017 and December 31, 2016, approximately \$47.2 million and \$53.9 million, respectively, of accrued bonuses were included above in “Compensation and related expenses”.

**12. 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 September 30, 2017 and December 31, 2016.

As of September 30, 2017 and December 31, 2016, the amount available under this revolving credit facility was reduced by certain letters of credit outstanding, which amounted to \$3.6 million and \$2.2 million, 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. As of September 30, 2017, CRA was in compliance with the covenants of its credit agreement.

**13. Revenue Recognition**

CRA offers consulting services in two broad areas: litigation, regulatory, and financial consulting and management consulting. Together, these two service areas comprised 100.0% of CRA's consolidated revenues for the fiscal quarter and fiscal year-to-date period ended September 30, 2017. CRA recognizes all project revenue on a gross basis based on consideration of the criteria set forth in ASC Topic 605-45, *Principal Agent Considerations*.

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. 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 a 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 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 CRA by its non-employee experts.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**13. Revenue Recognition (Continued)**

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, resulting in an impairment of their ability or intent to make payment, additional allowances may be required.

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

	<b>Fiscal Year-to-Date Period Ended</b>	<b>Fiscal Year Ended</b>
	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Balance at beginning of period . . . . .	\$ 4,253	\$ 3,648
Increases to reserve . . . . .	6,076	2,761
Amounts written off . . . . .	(2,852)	(2,156)
Effects of foreign currency translation . . . . .	9	—
Balance at end of period . . . . .	<u>\$ 7,486</u>	<u>\$ 4,253</u>

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

	<b>Fiscal Year-to-Date Period Ended</b>	<b>Fiscal Year Ended</b>
	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Balance at beginning of period . . . . .	\$1,720	\$ 2,354
Increases to reserves . . . . .	1,727	2,102
Amounts written off . . . . .	(914)	(2,736)
Effects of foreign currency translation . . . . .	(2)	—
Balance at end of period . . . . .	<u>\$2,531</u>	<u>\$ 1,720</u>

Generally, accounts and unbilled receivables allowances are recorded as a reduction to revenues. During fiscal 2016, \$1.1 million was recorded as a bad debt expense and reported as a component of selling, general and administrative expenses related to credit-related losses.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**13. Revenue Recognition (Continued)**

Revenues also include reimbursable expenses, which include travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. Reimbursable expenses are as follows (in thousands):

	Quarter Ended		Fiscal Year-to-Date Period Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Reimbursable expenses . . . . .	\$9,675	\$8,969	\$29,463	\$25,510

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*.

**14. Net Income 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 of 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 participating securities were not significant for the third quarter of fiscal 2017 and fiscal 2016.

The following table presents a reconciliation from net income attributable to CRA International, Inc. to net income available to common shareholders (in thousands):

	Quarter Ended		Fiscal Year-to-Date Period Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Net income, as reported . . . . .	\$3,214	\$3,193	\$9,880	\$10,830
Less: net income attributable to participating shares . . . . .	21	24	66	74
Net income available to common shareholders . . . . .	<u>\$3,193</u>	<u>\$3,169</u>	<u>\$9,814</u>	<u>\$10,756</u>

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**14. Net Income per Share (Continued)**

The following table presents a reconciliation of basic to diluted weighted average shares of common stock outstanding (in thousands):

	Quarter Ended		Fiscal Year-to-Date Period Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Basic weighted average shares outstanding . . . . .	8,149	8,177	8,332	8,581
Stock options . . . . .	<u>204</u>	<u>132</u>	<u>198</u>	<u>72</u>
Diluted weighted average shares outstanding . . . . .	<u>8,353</u>	<u>8,309</u>	<u>8,530</u>	<u>8,653</u>

For the third quarter and fiscal year-to-date periods ended September 30, 2017, 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 40,439 and 66,470 shares, respectively. For the third quarter and fiscal year-to-date periods ended October 1, 2016, 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 205,015 and 680,950 shares, respectively. These share-based awards were anti-dilutive because their exercise price exceeded the average market price over the respective period.

On March 21, 2016 and May 3, 2017, CRA's Board of Directors authorized the repurchase of up to an additional \$20.0 million and \$20.0 million, respectively, of CRA's common stock. Repurchases under these programs are discretionary and CRA may make 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 the third quarter of fiscal year 2017 and fiscal year-to-date period ended September 30, 2017, CRA repurchased and retired 165,629 shares and 554,708 shares, respectively, under these share repurchase programs at an average price per share of \$36.63 and \$35.23, respectively. During the third quarter and fiscal year-to-date period ended October 1, 2016, CRA repurchased and retired 110,908 shares and 783,703 shares, respectively, under these share repurchase programs at an average price per share of \$25.84 and \$24.33, respectively. There was approximately \$9.5 million available for future repurchases under these programs as of September 30, 2017.

**15. Income Taxes**

CRA's effective income tax rates were 41.7% and 37.7% for the third quarters of fiscal year 2017 and fiscal year 2016, respectively. The effective tax rate for the third quarter of fiscal year 2017 was higher than the prior year stemming from changes in the jurisdictional mix of earnings, executive compensation expenses, and the correction of a prior year estimate. This increase in rate was partially offset by the tax benefits related to stock-based compensation of approximately \$0.1 million as well as provision to return true-ups. The effective tax rate in the third quarter of fiscal year 2017 was higher than the combined Federal and state statutory tax rate also due to higher executive compensation and

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**15. Income Taxes (Continued)**

the correction of a prior year estimate. The effective tax rate in the third quarter of fiscal year 2016 was lower than the combined Federal and state statutory tax rate due to a favorable geographical mix of earnings.

CRA's effective income tax rates were 38.0% and 34.3% for the fiscal year-to-date periods ended September 30, 2017 and October 1, 2016, respectively. The effective tax rate for the fiscal year-to-date period ended September 30, 2017 was higher than the prior year primarily due to a non-recurring item in the prior year that drove the rate down and was not replicated in the current year. Other drivers of a higher year-to-date fiscal year 2017 effective tax rate are executive compensation expenses and unfavorable discrete items, which were partially offset by a tax benefit related to stock-based compensation of approximately \$0.4 million, as well as the tax implications associated with the reversal of contingent consideration. The effective tax rate for the fiscal year-to-date period ended September 30, 2017 was lower than the combined Federal and state statutory tax rate primarily due to a favorable geographical mix of earnings, as well as the tax benefit related to stock-based compensation and the tax implications associated with the reversal of contingent consideration, offset partially by executive compensation and other discrete unfavorable items. The effective tax rate fiscal year-to-date period ended October 1, 2016 was lower than the combined Federal and state statutory tax rate primarily due to a favorable geographical mix of earnings, as well as the sale of GNU's business assets.

CRA has not provided for deferred income taxes or foreign withholding taxes on undistributed earnings from its foreign subsidiaries as of September 30, 2017 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 from operations and availability from its U.S. revolving credit facility to fund its U.S. operational and strategic needs.

**16. Commitments and Contingencies**

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.

**17. Business Segment and Geographic Information**

CRA is a leading consulting firm specializing in providing economic, financial and management consulting services. It offers 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 2017 and 2016. CRA manages its business on an integrated basis through its international network of offices and areas of functional expertise. Many of CRA's practice areas are represented in several of its offices and are managed across geographic borders. When CRA evaluated its business, and possible operating segments, CRA reviewed the manner in which it is organized and managed, composition and responsibilities of its management team, the identification of its chief operating decision maker, as well as the availability of discrete financial information for its various business components and geographic areas. During fiscal 2017 and the majority of fiscal 2016, it determined that CRA operated in one business segment, its consulting services business. Prior to the sale of substantially all of GNU's business assets on April 13, 2016, CRA operated in two operating

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**17. Business Segment and Geographic Information (Continued)**

segments. GNU's financial information is included below and is immaterial to the overall consolidated financial statements. Revenue based on the physical location of the operation to which the revenues relate, are as follows (in thousands):

	Quarter Ended September 30, 2017	Quarter Ended October 1, 2016	Fiscal Year-to- Date Ended September 30, 2017	Fiscal Year-to- Date Ended October 1, 2016
Revenue:				
United States . . . . .	\$70,910	\$63,955	\$217,608	\$189,832
United Kingdom . . . . .	13,572	12,463	40,444	40,421
Other . . . . .	6,843	5,273	15,007	14,957
Total foreign . . . . .	20,415	17,736	55,451	55,378
Total Revenue . . . . .	<u>\$91,325</u>	<u>\$81,691</u>	<u>\$273,059</u>	<u>\$245,210</u>

Long-lived assets by physical location are as follows (in thousands):

	September 30, 2017	December 31, 2016
Long-lived assets (property and equipment, net):		
United States . . . . .	\$34,005	\$30,735
United Kingdom . . . . .	5,560	5,253
Other . . . . .	1,497	393
Total foreign . . . . .	7,057	5,646
Total Long-lived assets . . . . .	<u>\$41,062</u>	<u>\$36,381</u>

**18. Subsequent Events**

On October 26, 2017, CRA announced that its Board of Directors declared a quarterly cash dividend of \$0.17 per common share, payable on December 15, 2017 to shareholders of record as of November 28, 2017.

On October 24, 2017, the Company extended its \$125.0 million revolving credit facility for five years. The Company may use the proceeds of the revolving credit facility to provide working capital and for other general corporate purposes. Other than the letters of credit of approximately \$3.6 million that had been issued under the previous credit agreement, no other outstanding borrowings existed at the time of the extension.

## **ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Statements**

Except for historical facts, the statements in this quarterly 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 below 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 the other documents that we file with the Securities and Exchange Commission, or SEC. You can read these documents at [www.sec.gov](http://www.sec.gov).

Our principal Internet address is [www.crai.com](http://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 file them electronically 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.

### **Critical Accounting Policies and Significant Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. ("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 the 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 condensed 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.

Apart from the additional business combinations accounting policy included below, we have described our significant accounting policies in Note 1 to our consolidated financial statements included in our annual report on Form 10-K for fiscal 2016, which was filed with the SEC on March 15, 2017. We have reviewed our accounting policies, identifying those that we believe to be critical to the preparation and understanding of our consolidated financial statements in the list set forth below. See the disclosure under the heading "Critical Accounting Policies" in Item 7 of Part II of our Annual Report on Form 10-K for fiscal 2016 for a detailed description of these policies and their potential effects on our results of operations and financial condition.

- Revenue recognition and allowances for accounts receivable and unbilled services

- Share-based compensation expense
- Deferred compensation
- Valuation of goodwill and other intangible assets
- Accounting for income taxes

We did not adopt any changes in the fiscal year-to-date period ended September 30, 2017 that had a material effect on these critical accounting policies nor did we make any changes to our accounting policies in the fiscal year-to-date period ended September 30, 2017 that changed these critical accounting policies.

*Business Combinations.* We recognize and measure identifiable assets acquired, and liabilities assumed, of our acquirees as of the acquisition date at fair value. Fair value measurements require extensive use of estimates and assumptions, including estimates of future cash flows to be generated by the acquired assets. In addition, we recognize and measure contingent consideration at fair value as of the acquisition date. Contingent consideration obligations that are classified as liabilities are remeasured at fair value each reporting period with the changes in fair value resulting from either the passage of time, revised expectations of performance, or ultimate settlement to the amount or timing of the initial measurement recognized in the consolidated statements of comprehensive income.

#### **Recent Accounting Standards**

See Note 5 to our condensed consolidated financial statements included in this quarterly report on Form 10-Q for a discussion of recent accounting standards that we have not yet adopted. Additionally, Note 5 should be read in conjunction with the disclosure under the heading “Recent Accounting Standards” contained in Note 1 of the consolidated financial statements and the notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.



**Results of Operations—For the Quarter and Fiscal Year-to-Date Period Ended September 30, 2017, Compared to the Quarter and Fiscal Year-to-Date Period Ended October 1, 2016**

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

	Quarter Ended		Fiscal Year-to-Date Period Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Revenues . . . . .	100.0%	100.0%	100.0%	100.0%
Costs of services (exclusive of depreciation and amortization) . . . . .	68.4	70.8	69.7	69.9
Selling, general and administrative expenses . . . . .	22.8	20.4	21.9	21.5
Depreciation and amortization . . . . .	2.7	2.3	2.4	2.4
Income from operations . . . . .	6.2	6.5	6.0	6.2
GNU gain on sale of business assets . . . . .	—	—	0.1	1.5
Interest expense, net . . . . .	(0.1)	(0.2)	(0.2)	(0.1)
Other income (expense), net . . . . .	0.0	(0.1)	(0.1)	(0.1)
Income before provision for income taxes . . . . .	6.1	6.2	5.9	7.6
Provision for income taxes . . . . .	(2.5)	(2.3)	(2.2)	(2.6)
Net income . . . . .	3.5	3.9	3.6	5.0
Net (income) loss attributable to noncontrolling interest, net of tax . . . . .	0.0	0.1	0.0	(0.5)
Net income attributable to CRA International, Inc. . . . .	3.5%	3.9%	3.6%	4.4%

**Quarter Ended September 30, 2017 Compared to the Quarter Ended October 1, 2016**

*Revenues.* Revenues increased by \$9.6 million, or 11.8%, to \$91.3 million for the third quarter of fiscal 2017 from \$81.7 million for the third quarter of fiscal 2016. Revenues increased primarily in our business consulting practice. The increase in net revenue was a result of an increase in gross revenues of \$10.5 million as compared to the third quarter of fiscal 2016, offset by an increase in write-offs and reserves of \$0.9 million as compared to the third quarter of 2016. Utilization was up 1% to 74% for the third quarter of fiscal 2017 from 73% in the third quarter of fiscal 2016, while overall headcount increased from the end of the third quarter of fiscal 2016 to the end of the third quarter of fiscal 2017 by 98 consultants, driven by the addition of 84 consultants from the C1 acquisition and other recruiting activities in the quarter ended September 30, 2017.

Overall, revenues outside of the U.S. represented approximately 22% of total revenues for the third quarter of fiscal 2017 and the third quarter of fiscal 2016. Revenues derived from fixed-price engagements increased to 25% of total revenues for the third quarter of fiscal 2017 compared with 18% for the third quarter of fiscal 2016. These percentages of revenue derived from fixed-price engagements depend largely on the proportion of our revenues derived from our management consulting business, which typically has a higher concentration of fixed-price service contracts. This increase in revenues derived from fixed-price engagements was primarily attributable to the acquisition of C1.

*Costs of Services.* Costs of services increased by \$4.6 million, or 8.0%, to \$62.4 million for the third quarter of fiscal 2017 from \$57.8 million for the third quarter of fiscal 2016. The increase in costs of services was due primarily to an increase of \$4.4 million in employee compensation and fringe benefit costs attributable to salaries and benefits for our increased consulting headcount, which was

primarily attributable to the C1 acquisition, as well as a \$0.4 million increase in accretion related to contingent consideration from prior acquisitions. Additionally, client reimbursable expenses increased by \$0.7 million in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016. Partially offsetting these increases was a \$1.0 million decrease in retention and incentive compensation. Despite the overall increase in cost of services, as a percentage of revenues, costs of services decreased to 68.4% for the third quarter of fiscal 2017 from 70.8% for the third quarter of fiscal 2016, as this increase in cost of services was outpaced by the increase in revenue in the third quarter of fiscal 2017 compared to the third quarter of fiscal 2016.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$4.1 million, or 24.6%, to \$20.8 million for the third quarter of fiscal 2017 from \$16.7 million for the third quarter of fiscal 2016. Significant contributors to this increase were an increase in commissions to our non-employee experts of \$0.4 million for the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016, as a higher percentage of our revenue for the third quarter of fiscal 2017 was sourced by our non-employee experts, as well as a \$1.4 million increase in other professional fees, \$0.7 million increase in employee compensation and fringe benefit costs, a \$0.6 million increase in travel and entertainment expenses, a \$0.5 million increase in design costs related to capitalized software, a \$0.2 million increase in rent expense, and a \$0.2 million increase in bad debt reserves and write-offs for loans to employees in the third quarter of fiscal 2017 as compared to the third quarter of fiscal 2016.

As a percentage of revenues, selling, general and administrative expenses increased to 22.8% for the third quarter of fiscal 2017 from 20.4% for the third quarter of fiscal 2016, due primarily to the aforementioned increase in selling, general and administrative expenses modestly outpacing the increase in revenues in the third quarter of fiscal 2017 as compared with the third quarter of fiscal 2016. Commissions to our non-employee experts increased to 2.5% of revenues for the third quarter of fiscal 2017 compared to 2.4% of revenues for third quarter of fiscal 2016, as more revenue was sourced by non-employee experts in the third quarter of fiscal 2017.

*Provision for Income Taxes.* The income tax provision was \$2.3 million, and the effective tax rate was 41.7%, for the third quarter of fiscal 2017 compared to \$1.9 million and 37.7% for the third quarter of fiscal 2016. The effective tax rate for the third quarter of fiscal 2017 was higher than the prior year stemming from changes in the jurisdictional mix of earnings, executive compensation expenses, and true-ups to prior year estimates. This increase in rate was partially offset by tax benefits related to stock-based compensation of approximately \$0.1 million as well as provision to return true-ups. The effective tax rate in the third quarter of fiscal 2017 was comparable to the combined Federal and state statutory tax rate. The effective tax rate in the third quarter of fiscal 2016 was lower than the combined Federal and state statutory tax rate due to a favorable geographical mix of earnings.

*Net Income Attributable to Noncontrolling Interest, Net of Tax.* Our ownership interest in GNU was 55.89% for the third quarters of fiscal 2017 and fiscal 2016. 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. The results of operations of GNU allocable to its other owners was a net income of \$11 thousand for the third quarter of fiscal 2017 and a net loss of \$42 thousand for the third quarter of fiscal 2016.

*Net Income Attributable to CRA International, Inc.* Net income attributable to CRA International, Inc. remained flat at \$3.2 million for the third quarter of fiscal 2017 and for the third quarter of fiscal 2016. The net income per diluted share was \$0.38 per share for the third quarter of fiscal 2017 and for the third quarter of fiscal 2016. Diluted weighted average shares outstanding increased by approximately 44,000 shares to approximately 8,353,000 shares for the third quarter of fiscal 2017 from approximately 8,309,000 shares for the third quarter of fiscal 2016. The increase in

diluted weighted average shares outstanding was primarily due to the issuance or vesting of shares of restricted stock and time-vesting restricted stock units, and the exercise of stock options, since the third quarter of fiscal 2016, offset in part by the repurchase of shares of our common stock since the third quarter of fiscal 2016.

**Fiscal Year-to-Date Period Ended September 30, 2017 Compared to the Fiscal Year-to-Date Period Ended October 1, 2016**

*Revenues.* Revenues increased by \$27.9 million, or 11.4%, to \$273.0 million for the fiscal year-to-date period ended September 30, 2017 from \$245.2 million for the fiscal year-to-date period ended October 1, 2016. Revenues increased primarily in our business consulting service line. The increase in net revenue was a result of an increase in gross revenues of \$31.7 million as compared to the fiscal year-to-date period ended October 1, 2016, offset by an increase in write-offs and reserves of \$3.3 million as compared to the fiscal year-to-date period ended October 1, 2016. Notwithstanding a reduction in utilization to 74% for the fiscal year-to-date period ended September 30, 2017 from 75% for the fiscal year-to-date period ended October 1, 2016, revenue growth followed an increase in consulting headcount from the end of the third quarter of fiscal 2016 to the end of the third quarter of fiscal 2017 of 98, principally driven by the addition of 84 consultants from the C1 acquisition and other recruiting activities in the fiscal year-to-date period ended September 30, 2017. Offsetting this increase, GNU had a decrease in revenue of \$0.8 million in the fiscal year-to-date period ended September 30, 2017 compared with the fiscal year-to-date period ended October 1, 2016, principally due to the cessation of its operations in April 2016.

Overall, revenues outside of the U.S. represented approximately 20% and 23% of total revenues for the fiscal year-to-date period ended September 30, 2017 and the fiscal year-to-date period ended October 1, 2016, respectively. Revenues derived from fixed-price engagements were 25% and 17% of total revenues for the fiscal year-to-date period ended September 30, 2017 and the fiscal year-to-date period ended October 1, 2016, respectively. These percentages of revenue derived from fixed-price engagements depend largely on the proportion of our revenues derived from our management consulting business, which typically has a higher concentration of fixed-price service contracts. The increase in the fiscal year-to-date period ended September 30, 2017 compared with the fiscal year-to-date period ended October 1, 2016 is primarily attributable to the acquisition of C1 and the performance of certain of our other practices.

*Costs of Services.* Costs of services increased by \$18.9 million, or 11.0%, to \$190.2 million for the fiscal year-to-date period ended September 30, 2017 from \$171.3 million for the fiscal year-to-date period ended October 1, 2016. The increase in costs of services was due primarily to an increase of \$11.4 million in employee compensation and fringe benefit costs attributable to salaries and benefits associated with our increased consulting headcount, primarily attributable to the C1 acquisition, an increase in incentive and retention compensation costs of \$3.3 million, and a \$0.7 million increase in accretion related to contingent consideration from prior acquisitions. Additionally, client reimbursable expenses increased by \$4.0 million in the fiscal year-to-date period ended September 30, 2017 compared to the fiscal year-to-date period ended October 1, 2016. Partially offsetting these increases, cost of services for GNU decreased by \$0.3 million for the fiscal year-to-date period ended September 30, 2017, due to the sale of its business assets and cessation of operations in April 2016. As a percentage of revenues, costs of services remained essentially flat at 69.7% for fiscal year-to-date period ended September 30, 2017 and fiscal year-to-date period ended October 1, 2016.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by \$7.1 million, or 13.5%, to \$59.8 million for three quarters of fiscal 2017 from \$52.7 million for three quarters of fiscal 2016. The primary contributors to this increase were an increase in other professional fees of \$2.9 million, a \$1.0 million increase in employee compensation and fringe benefit costs, a \$1.1 million increase in travel and entertainment expenses, a \$0.5 million increase in design

costs related to capitalized software, a \$0.5 million increase in intangible impairments, a \$0.6 million increase in rent expense related to the additional office space attributed to the C1 acquisition incurred in the fiscal year-to-date period ended September 30, 2017, and an increase in other operating expenses of \$1.4 million. Additionally, selling, general and administrative expenses for GNU decreased by \$0.5 million for the fiscal year-to-date period ended September 30, 2017, due to the sale of its business assets and cessation of operations in April 2016.

As a percentage of revenues, selling, general and administrative expenses increased to 21.9% for the fiscal year-to-date period ended September 30, 2017 from 21.5% for fiscal year-to-date period ended October 1, 2016 due primarily to the quarter over quarter increase selling, general and administrative expenses outpacing the quarter over quarter revenue increase. Commissions to our non-employee experts decreased to 2.7% of revenues for the fiscal year-to-date period ended September 30, 2017 compared to 2.8% of revenues for fiscal year-to-date period ended October 1, 2016 as less revenue was sourced by non-employee experts in the fiscal year-to-date period ended September 30, 2017.

*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, which remaining amount was paid in full on May 3, 2017. GNU recognized a gain on sale of its business assets of \$0.25 million during the second quarter of fiscal 2017, of which \$0.14 million is attributed to CRA, and \$3.8 million during the second quarter of fiscal 2016, of which \$2.1 million is attributed to CRA.

*Provision for Income Taxes.* For the first three quarters of fiscal 2017, our income tax provision was \$6.1 million, and the effective tax rate was 38.0%, compared to a provision of \$6.4 million and an effective tax rate of 34.3% for the first three quarters of fiscal 2016. The effective tax rate for the first three quarters of fiscal 2017 was higher than the prior year primarily due to a non-recurring item in the prior year that drove the rate down and was not replicated in the current year. Other drivers of a higher year-to-date fiscal 2017 effective tax rate are executive compensation expenses and unfavorable discrete items, which were partially offset by a tax benefit related to stock-based compensation of approximately \$0.4 million, as well as the tax implications associated with the reversal of contingent consideration. The effective tax rate in the first three quarters of fiscal 2017 was lower than the combined Federal and state statutory tax rate primarily due to a favorable geographical mix of earnings, as well as the tax benefit related to stock-based compensation and the tax implications associated with the reversal of contingent consideration, offset partially by executive compensation and other discrete unfavorable items. The effective tax rate in the first three quarters of fiscal 2016 was lower than the combined Federal and state statutory tax rate primarily due to a favorable geographical mix of earnings, as well as the sale of GNU's business assets.

*Net Income Attributable to Noncontrolling Interest, Net of Tax.* Our ownership interest in GNU was 55.89% for the fiscal year-to-date period ended September 30, 2017 and the fiscal year-to-date period ended October 1, 2016. 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. The results of operations of GNU allocable to its other owners was net income of \$82 thousand for the fiscal year-to-date period ended September 30, 2017, and net income of \$1.3 million, primarily as a result of the gain on sale attributable to its other owners of \$1.7 million, for the fiscal year-to-date period ended October 1, 2016.

*Net Income Attributable to CRA International, Inc.* Net income attributable to CRA International, Inc. decreased by \$0.9 million to \$9.9 million for the fiscal year-to-date period ended

September 30, 2017 from \$10.8 million for the fiscal year-to-date period ended October 1, 2016. The diluted net income per share was \$1.15 for the fiscal year-to-date period ended September 30, 2017, compared to diluted net income per share of \$1.24 per share for the fiscal year-to-date period ended October 1, 2016. Diluted weighted average shares outstanding decreased by approximately 123,000 to approximately 8,530,000 shares for the fiscal year-to-date period ended September 30, 2017 from approximately 8,653,000 shares for the fiscal year-to-date period ended October 1, 2016. The decrease in diluted weighted average shares outstanding was primarily due to the repurchase of shares of our common stock since October 1, 2016, offset in part by the issuance or vesting of shares of restricted stock and time-vesting restricted stock units, and stock options that have been exercised, since October 1, 2016.

## **Liquidity and Capital Resources**

### ***Fiscal Year-to-Date Period Ended September 30, 2017***

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

*General.* In the fiscal year-to-date period ended September 30, 2017, cash and cash equivalents decreased by \$32.6 million. We completed the period with cash and cash equivalents of \$20.9 million and working capital (defined as current assets less current liabilities) of \$60.6 million. The principal drivers of the reduction of cash was payment of a significant portion of our fiscal 2016 performance bonuses, the buildout of new leased office space, the repurchase and retirement of shares of our common stock, and cash paid for the C1 acquisition.

Of the total cash and cash equivalents of \$20.9 million at September 30, 2017, \$6.4 million was held within the U.S. We have sufficient sources of cash in the U.S., including cash flow from operations and availability on our revolving line of credit, to fund U.S. activities.

*Sources and Uses of Cash.* During the fiscal year-to-date period ended September 30, 2017, net cash provided by operating activities was \$7.8 million. Net income was \$10.0 million for the fiscal year-to-date period ended September 30, 2017. The primary factor in cash used in operations was the increase of \$8.4 million in the “accounts receivable” and “accounts receivable allowances” line item of the cash flow statement and an increase in the “unbilled services” line item of the cash flow statement of \$15.5 million due to the increase in unbilled amounts. Other uses of cash included a decrease of \$1.2 million in the “accounts payable, accrued expenses, and other liabilities” line item of the cash flow statement. Offsetting these uses of cash was a \$6.5 million decrease in the “prepaid expenses and other current assets, and other assets” line item of the cash flow statement. Cash provided by operations included non-cash items related to depreciation and amortization expense of \$6.6 million and to share-based compensation expenses of \$4.6 million. The change in forgivable loans for the period of \$2.4 million was primarily driven by \$10.3 million of forgivable loan amortization, \$3.0 million repayments and reclassifications, net of \$10.8 million of forgivable loan issuances and accruals.

During the fiscal year-to-date period ended September 30, 2017, net cash used in investing activities was \$21.3 million, which included \$16.2 million in consideration relating to the C1 acquisition and \$5.4 million for capital expenditures primarily related to computer equipment and leasehold improvements for new office leased space.

We used \$20.8 million of net cash in financing activities during the fiscal year-to-date period ended September 30, 2017, primarily for the repurchase and retirement of shares of our common stock of \$19.5 million, the payment of \$3.5 million in cash dividends to shareholders, and \$0.7 million in vested employee restricted shares for tax withholdings. Offsetting these uses of cash was \$3.0 million received upon the issuance of shares of common stock related to the exercise of stock options.



### ***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 September 30, 2017.

The amount available under this revolving credit facility is reduced by certain letters of credit outstanding, which amounted to \$3.6 million and \$2.2 million, respectively, as of September 30, 2017 and 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 \$26.4 million in net assets as of September 30, 2017.

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 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.

On October 24, 2017, the Company extended its \$125.0 million revolving credit facility for five years. The Company may use the proceeds of the revolving credit facility to provide working capital and for other general corporate purposes. Other than the letters of credit of approximately \$3.6 million that had been issued under the previous credit agreement, no other outstanding borrowings existed at the time of the extension.

### ***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.

### ***Compensation Arrangements***

We have entered into 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 Acquisitions***

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. See Note 6 Business Acquisitions to the condensed consolidated financial statements to this Form 10-Q for further details of the C1 acquisition.

### ***Share Repurchases***

On March 21, 2016, and May 3, 2017 our Board of Directors authorized the repurchase of up to an additional \$20.0 million and \$20.0 million, respectively, of our common stock. Repurchases under these programs are discretionary and we may make such repurchases 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 the third quarter of fiscal 2017, we repurchased and retired 165,629 shares under these share repurchase programs at an average price per share of \$36.63. Approximately \$9.5 million was available for future repurchases as of September 30, 2017.

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.

### ***Dividends to Shareholders***

We anticipate paying regular quarterly dividends each year. These dividends are anticipated to be funded through cash flow from operations, available cash on hand, and/or borrowings under our revolving credit facility. 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 bank 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**

On April 21, 2017, we entered into the first amendment of the lease with 1411 IC-SIC Property, LLC to extend the term of previously leased space of 25,261 square feet, for an additional twenty-three months to April 30, 2028 for office space located on the 35th floor, and to lease additional space of 16,587 square feet on the 25th floor expiring on the same date, of the office building located at 1411 Broadway in New York, New York. The amendment includes a base rent abatement of approximately \$1.2 million, as well as a tenant improvement allowance of approximately \$1.4 million. Following an initial rent abatement period, the annual base rent will be approximately \$1.2 million per year, subject to annual increases of approximately 8% after five years.

On May 8, 2017, we entered into the first amendment of the lease with John Hancock Life Insurance Company (U.S.A.), to extend the term of the currently leased space of 41,642 square feet, for an additional ten years ending on July 31, 2028 for office space located on the 33rd and 34th floor of the office building located at 1 South Wacker Drive in Chicago, Illinois. The amendment includes a base rent abatement of approximately \$0.9 million, as well as a tenant improvement allowance of approximately \$2.3 million. Following an initial rent abatement period, the annual base rent will be approximately \$1.1 million per year, subject to annual increases of approximately 2.5% per year.

On July 21, 2017, CRA entered into the first amendment of the San Francisco, CA lease for an additional 9,206 square feet of office space and to extend the terms for an additional eight years ending on September 30, 2025. Beginning on October 1, 2017, the annual base rent will be approximately \$0.9 million per year, subject to annual increases of approximately 3.0% per year. The amendment includes a base rent abatement of approximately \$0.5 million, as well as a tenant improvement allowance of approximately \$1.2 million.

## **Factors Affecting Future Performance**

Important factors that could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report on Form 10-Q, as well as a description of material risks we face, are set forth under the heading “Risk Factors” included in Part I—Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 15, 2017. 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 3. Quantitative and Qualitative Disclosures About Market Risk**

For information regarding our exposure to certain market risks see “Item 7A. Quantitative and Qualitative Disclosures about Market Risk,” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

## **ITEM 4. Controls and Procedures**

### *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 to provide reasonable assurance that we record, process, summarize and report the information we must disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, 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 September 30, 2017, due to the material weaknesses in internal

control over financial reporting related to the inadequate design and execution of controls over revenue and related reserve processes, compensation-related processes, and certain non-routine technical accounting processes described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Notwithstanding the material weaknesses, management has concluded that the consolidated financial statements included in this Form 10-Q 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.

#### *Evaluation of Changes in 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 evaluated whether there were any changes in our internal control over financial reporting during the third quarter of fiscal 2017.

Other than changes effected in accordance with the ongoing remediation, as further described below, of the material weaknesses in internal controls over financial reporting related to inadequate design and execution of controls over revenue and related reserve processes, compensation-related processes, and certain non-routine technical accounting processes 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 December 31, 2016, there were no changes in our internal control over financial reporting identified in connection with the above evaluation that occurred during the third quarter of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### *Plan for Remediation of Material Weakness*

Management has initiated a remediation plan which includes, but is not limited to, the following actions:

- We have established a Special Internal Controls Committee reporting to the Audit Committee, led by our CEO. The Committee and other members of management have prepared an overall assessment of our financial accounting systems, accounting policies, procedures and controls. This assessment is the basis of the detailed remediation plan.
- We hired additional technical accounting personnel.
- On April 25, 2017, Douglas C. Miller was appointed to the position of Chief Accounting Officer.

#### *Important Considerations*

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, 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.

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

None.

### ITEM 1A. Risk Factors

There have been no material changes in any risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 15, 2017. See “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for a complete description of the material risks we face.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information about our repurchases of shares of our common stock during the fiscal quarter ended September 30, 2017. 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 third quarter of fiscal 2017.

#### Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 2, 2017 to July 29, 2017 . . .	40,629	\$36.22 per share	40,629	\$15,560,261
July 30, 2017 to August 26, 2017	—	—	—	\$14,087,417
August 27, 2017 to September, 2017 . . . . .	125,000	\$36.75 per share	125,000	\$ 9,493,667

- (1) On March 21, 2016 and May 3, 2017, we announced that our Board of Directors approved share repurchase programs of up to an additional \$20.0 million and \$20.0 million, respectively, of our common stock. We may repurchase shares under these programs in open market purchases (including under 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. During the four weeks ended July 29, 2017, we repurchased and retired 40,629 shares under these programs at an average price per share of \$36.22. During the five weeks ended September 30, 2017, we repurchased and retired 125,000 shares under these programs at an average price per share of \$36.75. Approximately \$9.5 million was available for future repurchases under these programs as of September 30, 2017. We expect to continue to repurchase shares under these programs.

### ITEM 3. Defaults Upon Senior Securities

None.

### ITEM 4. Mine Safety Disclosures

None.

**ITEM 5. Other Information**

On July 21, 2017, CRA amended its lease with Columbia REIT—221 Main, LLC, as landlord, for CRA's office space located at 221 Main Street, San Francisco, California. Under the amendment, CRA will lease an additional 9,206 square feet of office space and relocate to the building's 16<sup>th</sup> floor. The amendment extends the base term of the lease for an additional eight years ending on September 30, 2025. Beginning on October 1, 2017, the annual base rent for the new office space through the new end of the lease's base term, exclusive of customary operating costs and expenses, will be approximately \$0.9 million per year, subject to annual increases of approximately 3.0% per year. The amendment includes a base rent abatement of approximately \$0.5 million, as well as a tenant improvement allowance of approximately \$1.2 million. The amendment gives CRA a right of first offer to rent certain additional office space in the building if it becomes available. If CRA expands the leased office space and is leasing the entire 16<sup>th</sup> floor of the building, subject to certain conditions, the new base term of the lease will be extendible by CRA for one five-year period. A copy of the lease amendment is attached as Exhibit 10.2 to this quarterly report on Form 10-Q and is incorporated herein by reference.

**ITEM 6. EXHIBIT INDEX**

<b>Item No.</b>	<b>Description</b>
10.1	CRA International, Inc. Amended and Restated 2006 Equity Incentive Plan, as amended (incorporated by reference to Annex A to our proxy statement filed on April 28, 2017)*
10.2	Office Lease dated April 2, 2013 by and between C1 Consulting Limited Liability Company and 221 Main Property Owner LLC, as amended by First Amendment to Lease dated July 21, 2017 by and between CRA International, Inc. (as successor to C1 Consulting Limited Liability Company) and Columbia REIT—221 Main, LLC (as successor to 221 Main Property Owner LLC)
10.3	Addendum No. 6 to Lease dated July 11, 2016 by and between CRA International, Inc. and 1201 F Street, L.P.
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer
32.1	Section 1350 certification
101	The following financial statements from CRA International, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language), as follows: (i) Condensed Consolidated Income Statements (unaudited) for the fiscal quarters and the fiscal year-to-date periods ended September 30, 2017 and October 1, 2016, (ii) Condensed Consolidated Statements of Comprehensive Income (unaudited) for the fiscal quarters and the fiscal year-to-date periods ended September 30, 2017 and October 1, 2016, (iii) Condensed Consolidated Balance Sheets (unaudited) as at September 30, 2017 and December 31, 2016, (iv) Condensed Consolidated Statements of Cash Flows (unaudited) for the fiscal year-to-date periods ended September 30, 2017 and October 1, 2016, (v) Condensed Consolidated Statement of Shareholders' Equity (unaudited) for the fiscal year-to-date period ended September 30, 2017, and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

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\* Management contract or compensatory plan

## SIGNATURES

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

CRA INTERNATIONAL, INC.

Date: October 31, 2017

By: /s/ PAUL A. MALEH  
Paul A. Maleh  
*President and Chief Executive Officer*

Date: October 31, 2017

By: /s/ CHAD M. HOLMES  
Chad M. Holmes  
*Chief Financial Officer, Executive Vice President  
and Treasurer*

Date: October 31, 2017

By: /s/ DOUGLAS C. MILLER  
Douglas C. Miller  
*Vice President and Chief Accounting Officer*