

CRA INTERNATIONAL, INC.
Form 10-Q
May 11, 2017

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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 April 1, 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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 5, 2017
Common Stock, no par value per share	8,574,865 shares

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CRA International, Inc.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****CRA INTERNATIONAL, INC.****CONDENSED CONSOLIDATED INCOME STATEMENTS (unaudited)***(In thousands, except share data)*

	Quarter Ended	
	April 1, 2017	April 2, 2016
Revenues	\$ 88,171	\$ 80,912
Costs of services	62,581	55,515
Gross profit	25,590	25,397
Selling, general and administrative expenses	18,716	19,221
Depreciation and amortization	1,963	1,850
Income from operations	4,911	4,326
Interest expense, net	(112)	(107)
Other expense, net	(191)	(34)
Income before provision for income taxes	4,608	4,185
Provision for income taxes	(1,778)	(1,946)
Net income	2,830	2,239
Net loss attributable to noncontrolling interest, net of tax	23	184
Net income attributable to CRA International, Inc.	\$ 2,853	\$ 2,423
Net income per share attributable to CRA International, Inc.:		
Basic	\$ 0.34	\$ 0.27
Diluted	\$ 0.33	\$ 0.27
Weighted average number of shares outstanding:		
Basic	8,419	8,871
Diluted	8,621	8,927

See accompanying notes to the condensed consolidated financial statements.

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CRA INTERNATIONAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(In thousands)

	April 1, 2017	April 2, 2016
Net income	\$ 2,830	\$ 2,239
Other comprehensive income		
Foreign currency translation adjustments	584	23
Comprehensive income	3,414	2,262
Less: comprehensive loss attributable to noncontrolling interest	23	184
Comprehensive income attributable to CRA International, Inc.	\$ 3,437	\$ 2,446

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CRA INTERNATIONAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)***(In thousands, except share data)*

	April 1, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,819	\$ 53,530
Accounts receivable, net of allowances of \$5,286 at April 1, 2017 and \$4,253 at December 31, 2016	65,228	66,852
Unbilled services, net of allowances of \$2,362 at April 1, 2017 and \$1,720 at December 31, 2016	39,376	24,937
Prepaid expenses and other current assets	17,487	19,295
Forgivable loans	6,179	5,897
Total current assets	150,089	170,511
Property and equipment, net	36,246	36,381
Goodwill	87,776	74,764
Intangible assets, net	11,324	2,685
Deferred income taxes	10,033	10,049
Forgivable loans, net of current portion	25,684	28,065
Other assets	1,279	1,187
Total assets	\$ 322,431	\$ 323,642
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 15,894	\$ 13,729
Accrued expenses	54,055	75,281
Deferred revenue and other liabilities	3,824	3,021
Current portion of deferred rent	1,514	1,499
Current portion of deferred compensation	718	570
Current portion revolving line of credit	6,000	
Total current liabilities	82,005	94,100
Non-current liabilities:		
Deferred rent and facility-related non-current liabilities	15,603	15,191
Deferred compensation and other non-current liabilities	9,255	6,346
Deferred income taxes	261	122
Total non-current liabilities	25,119	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; 8,516,783 and 8,333,990 shares issued and outstanding at April 1, 2017 and December 31, 2016, respectively	59,342	54,124
Retained earnings	168,559	166,914
Accumulated other comprehensive loss	(13,234)	(13,818)
Total CRA International, Inc. shareholders' equity	214,667	207,220
Noncontrolling interest	640	663

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Total shareholders' equity	215,307	207,883
Total liabilities and shareholders' equity	\$ 322,431	\$ 323,642

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CRA INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)***(In thousands)*

	Quarter Ended	
	April 1, 2017	April 2, 2016
OPERATING ACTIVITIES:		
Net income	\$ 2,830	\$ 2,239
Adjustments to reconcile net income to net cash used in operating activities, net of effect of acquired businesses:		
Depreciation and amortization	1,966	1,846
Deferred rent	395	2,579
Deferred income taxes	201	
Share-based compensation expenses	1,655	1,655
Excess tax deficit from share-based compensation		(32)
Accounts receivable allowances	1,004	339
Changes in operating assets and liabilities:		
Accounts receivable	3,061	6,237
Unbilled services	(12,657)	(9,178)
Prepaid expenses and other current asset, and other assets	1,865	2,086
Forgivable loans	2,150	3,157
Incentive cash awards	245	
Accounts payable, accrued expenses, and other liabilities	(23,086)	(20,888)
Net cash used in operating activities	(20,371)	(9,960)
INVESTING ACTIVITIES:		
Consideration paid for acquisitions, net	(16,163)	
Purchases of property and equipment	(823)	(5,073)
Net cash used in investing activities	(16,986)	(5,073)
FINANCING ACTIVITIES:		
Issuance of common stock, principally stock options exercises	1,266	
Borrowings under revolving line of credit	6,000	
Payments on notes payable		(75)
Tax withholding payments reimbursed by restricted shares	(703)	(490)
Excess tax benefit from share-based compensation		32
Cash paid on dividend equivalents	(24)	
Cash dividends paid to stockholders	(1,188)	
Repurchase of common stock		(296)
Net cash provided by (used in) financing activities	5,351	(829)
Effect of foreign exchange rates on cash and cash equivalents	295	304
Net decrease in cash and cash equivalents	(31,711)	(15,558)
Cash and cash equivalents at beginning of period	53,530	38,139
Cash and cash equivalents at end of period	\$ 21,819	\$ 22,581
Noncash investing and financing activities:		
Issuance of restricted common stock for acquired business	\$ 3,000	\$

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Purchases of property and equipment not yet paid for	\$	512	\$	2,022
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Purchases of property and equipment paid for by a third party	\$	153	\$	
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Supplemental cash flow information:

Cash paid for income taxes	\$	281	\$	281
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Cash paid for interest	\$	78	\$	155
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See accompanying notes to the condensed consolidated financial statements.

Table of Contents**CRA INTERNATIONAL, INC.****CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (unaudited)***(in thousands, except share data)*

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	CRA International, Inc.		Noncontrolling Interest	Total Shareholders' Equity
	Shares Issued	Amount			Shareholders' Equity	Shareholders' Equity		
BALANCE AT DECEMBER 31, 2016	8,333,990	\$ 54,124	\$ 166,914	\$ (13,818)	\$ 207,220	\$ 663	\$ 207,883	
Net income (loss)			2,853		2,853	(23)	2,830	
Foreign currency translation adjustment				584	584		584	
Issuance of restricted common stock	88,044	3,000			3,000		3,000	
Exercise of stock options	60,355	1,266			1,266		1,266	
Share-based compensation expense for employees		1,631			1,631		1,631	
Restricted share vesting	53,913							
Redemption of vested employee restricted shares for tax withholding	(19,519)	(703)			(703)		(703)	
Excess tax benefit on share-based compensation not previously recognized			48		48		48	
Shares repurchased								
Share-based compensation expense for non-employees		24			24		24	
Accrued dividends on unvested shares			(44)		(44)		(44)	
Cash dividends paid to stockholder			(1,188)		(1,188)		(1,188)	
Cash paid on dividend equivalents			(24)		(24)		(24)	
BALANCE AT APRIL 1, 2017	8,516,783	\$ 59,342	\$ 168,559	\$ (13,234)	\$ 214,667	\$ 640	\$ 215,307	

See accompanying notes to the condensed consolidated financial statements.

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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 quarters ending April 1, 2017 and April 2, 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 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.

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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."