

CRA INTERNATIONAL, INC.
Form 10-Q
October 31, 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 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

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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
(Do not check if a smaller reporting company)

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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Table of Contents**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. | \$ 3,214 | \$ 3,193 | \$ 9,880 | \$ 10,830 |
| Net income per share attributable to CRA International, Inc: | | | | |
| Basic | \$ 0.39 | \$ 0.39 | \$ 1.18 | \$ 1.25 |
| Diluted | \$ 0.38 | \$ 0.38 | \$ 1.15 | \$ 1.24 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 8,149 | 8,177 | 8,332 | 8,581 |
| Diluted | 8,353 | 8,309 | 8,530 | 8,653 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**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. | \$ 4,488 | \$ 2,585 | \$ 13,491 | \$ 8,307 |

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)*

| | September 30, 2017 | December 31, 2016 |
|--|-----------------------|----------------------|
| Assets | | |
| 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 | \$ 334,420 | \$ 323,642 |
| Liabilities and shareholders' equity | | |
| 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 |

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| | | |
|--|------------|------------|
| Total shareholders' equity | 208,177 | 207,883 |
| Total liabilities and shareholders' equity | \$ 334,420 | \$ 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)*

| | Fiscal Year-to-Date Period Ended | |
|---|---|----------------------------|
| | September 30, 2017 | October 1, 2016 |
| Operating activities: | | |
| 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 |
| Investing activities: | | |
| 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) |
| Financing activities: | | |
| 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 | \$ 20,899 | \$ 25,184 |
| Noncash investing and financing activities: | | |
| Issuance of common stock for acquired business | \$ 3,044 | \$ 44 |

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| | | | | |
|---|----|-------|----|-------|
| Purchases of property and equipment not yet paid for | \$ | 2,568 | \$ | 1,234 |
| Purchases of property and equipment paid by a third party | \$ | 1,640 | \$ | |
| Asset retirement obligations | \$ | | \$ | 1,479 |
| Supplemental cash flow information: | | | | |
| Cash paid for income taxes | \$ | 7,297 | \$ | 3,959 |
| Cash paid for interest | \$ | 248 | \$ | 327 |

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 | | Accumulated Other Comprehensive Income | | CRA International, Inc. | | Noncontrolling Interest | Total Shareholders' Equity |
|---|---------------|-----------|--|-------------|-------------------------|----------------------|-------------------------|----------------------------|
| | Shares Issued | Amount | Retained Earnings | Loss | 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 | | | 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 | | | | | | | | |