



**CHARLES RIVER ASSOCIATES (CRA)
THIRD QUARTER FISCAL YEAR 2017
EARNINGS ANNOUNCEMENT
PREPARED CFO REMARKS**

CRA is providing these prepared remarks by CFO Chad Holmes in combination with its press release. These remarks are offered to provide the investment community with additional information on CRA's financial results prior to the start of the conference call. As previously announced, the conference call will be held October 26, 2017 at 10:00 a.m. ET. These prepared remarks will not be read on the call.

Q3 Fiscal 2017 Summary (Quarter ended September 30, 2017)

- Revenue and non-GAAP revenue: \$91.3 million
- Net income: \$3.2 million, or 3.5% of revenue; non-GAAP net income: \$3.5 million, or 3.8% of revenue
- Earnings per diluted share: \$0.38; non-GAAP earnings per diluted share: \$0.41
- Operating margin: 6.2%; non-GAAP operating margin: 6.7%
- Effective tax rate: 41.7%; non-GAAP effective tax rate: 42.3%
- Utilization: 74%
- Cash and cash equivalents: \$20.9 million at September 30, 2017
- Non-GAAP Adjusted EBITDA: \$14.9 million, or 16.3% of non-GAAP revenue
- Consultant headcount at the end of Q3 of fiscal 2017: 639, which consists of 128 officers, 354 other senior staff and 157 junior staff

Revenue

Revenue was \$91.3 million for Q3 of fiscal 2017, compared with revenue of \$81.7 million for Q3 of fiscal 2016. Revenue for Q3 of fiscal 2017 and Q3 of fiscal 2016 included zero contribution from GNU (formerly known as "NeuCo"; see more details in the "Non-GAAP Financial Measures" section). Non-GAAP revenue was \$91.3 million for Q3 of fiscal 2017, compared with non-GAAP revenue of \$81.7 million for Q3 of fiscal 2016.

Headcount

The following table outlines our consultant headcount at the end of the stated quarters:

	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016
Officers	128	123	126	119	115
Other Senior Staff	354	326	340	270	270
Junior Staff	157	151	161	151	156
Total	639	600	627	540	541

Utilization

Companywide utilization in Q3 of fiscal 2017 was 74%, compared with 73% in Q3 of fiscal 2016.

SG&A Expenses

On a GAAP and non-GAAP basis, SG&A expenses were \$20.8 million, or 22.8% of revenue in Q3 of fiscal 2017, compared with GAAP SG&A expenses of \$16.7 million, or 20.4% of GAAP revenue in Q3 of fiscal 2016, and non-GAAP SG&A expenses of \$16.6 million, or 20.3% of non-GAAP revenue in Q3 of fiscal 2016.

Commissions to non-employee experts are included in SG&A expenses. On a GAAP and non-GAAP basis, these commissions represented approximately 2.5% and 2.4% of revenue in Q3 of fiscal 2017 and Q3 of fiscal 2016, respectively. Excluding these commissions, non-GAAP SG&A expenses were 20.2% and 17.9% of non-GAAP revenue in Q3 of fiscal 2017 and Q3 of fiscal 2016, respectively.

Depreciation & Amortization

On a GAAP and non-GAAP basis, depreciation and amortization expense was \$2.5 million for Q3 of fiscal 2017, compared with \$1.9 million for Q3 of fiscal 2016.

Share-Based Compensation Expense

On a GAAP and non-GAAP basis, share-based compensation expense was approximately \$1.6 million for Q3 of fiscal 2017, compared with \$1.7 million for Q3 of fiscal 2016. On a GAAP and non-GAAP basis, this equates to 1.7% of revenue in Q3 of fiscal 2017, compared with 2.1% of revenue in Q3 of fiscal 2016.

Operating Income

Operating income was \$5.6 million, or 6.2% of revenue, in Q3 of fiscal 2017, compared with operating income of \$5.3 million, or 6.5% of revenue, in Q3 of fiscal 2016. Non-GAAP operating income was \$6.1 million, or 6.7% of non-GAAP revenue, for Q3 of fiscal 2017, compared with \$5.4 million, or 6.6% of non-GAAP revenue, for Q3 of fiscal 2016.

Interest and Other Expense, net

In Q3 of fiscal 2017, interest and other expense, net was \$112,000 on a GAAP and non-GAAP basis. This compares with interest and other expense, net of \$237,000 on a GAAP and non-GAAP basis in Q3 of fiscal 2016.

Income Taxes

The following table outlines our income tax provision recorded (in \$000) and the resulting effective tax rates:

	GAAP		NON-GAAP	
	Q3		Q3	
	2017	2016	2017	2016
Tax Provision	\$2,310	\$1,909	\$2,531	\$1,909
Effective Tax Rate	41.7%	37.7%	42.3%	37.0%

Net Income

Net income for Q3 of fiscal 2017 was \$3.2 million, or 3.5% of revenue, or \$0.38 per diluted share, compared with net income of \$3.2 million, or 3.9% of revenue, or \$0.38 per diluted share, for Q3 of fiscal 2016. Non-GAAP net income for Q3 of fiscal 2017 was \$3.5 million, or 3.8% of non-GAAP revenue, or \$0.41 per diluted share, compared with \$3.2 million, or 4.0% of non-GAAP revenue, or \$0.39 per diluted share, for Q3 of fiscal 2016.

Non-GAAP Adjusted EBITDA

Non-GAAP Adjusted EBITDA for Q3 of fiscal 2017 was \$14.9 million, or 16.3% of non-GAAP revenue, compared with \$13.8 million, or 16.8% of non-GAAP revenue, for Q3 of fiscal 2016.

See the exhibit to CRA's press release and the information provided below under the heading "Non-GAAP Financial Measures" for more details regarding the calculation of non-GAAP Adjusted EBITDA.

Constant Currency Basis

On a constant currency basis relative to Q3 of fiscal 2016, Q3 of fiscal 2017 revenue would have decreased by approximately \$0.2 million to \$91.1 million, and Q3 of fiscal 2017 net income would have decreased by approximately \$0.1 million to \$3.2 million, or 3.5% of revenue, or by approximately \$0.01 per diluted share to \$0.37 per diluted share.

Fiscal 2017 year-to-date revenue was \$273.1 million, and fiscal 2017 year-to-date net income was \$9.9 million, or 3.6% of revenue, or \$1.15 per diluted share. On a constant currency basis relative to the first three quarters of fiscal 2016, fiscal 2017 year-to-date

revenue would have increased by approximately \$3.7 million to \$276.7 million, and fiscal 2017 year-to-date net income would have increased by approximately \$0.6 million to \$10.4 million, or 3.8% of revenue, or by approximately \$0.06 per diluted share to \$1.21 per diluted share.

On a constant currency basis relative to Q3 of fiscal 2016, Q3 of fiscal 2017 non-GAAP revenue would have decreased by approximately \$0.2 million to \$91.1 million, Q3 of fiscal 2017 non-GAAP net income would have decreased by approximately \$0.1 million to \$3.4 million, or 3.7% of non-GAAP revenue, or by approximately \$0.01 per diluted share to \$0.40 per diluted share, and Q3 of fiscal 2017 non-GAAP Adjusted EBITDA would have decreased by approximately \$0.1 million to \$14.8 million, or 16.2% of non-GAAP revenue.

On a constant currency basis relative to the first three quarters of fiscal 2016, fiscal 2017 year-to-date non-GAAP revenue would have increased by approximately \$3.7 million to \$276.7 million, fiscal 2017 year-to-date non-GAAP net income would have increased by \$0.6 million to \$11.0 million, or 4.0% of revenue, or by \$0.06 per diluted share to \$1.28 per diluted share, and fiscal 2017 year-to-date non-GAAP Adjusted EBITDA would have increased by approximately \$0.8 million to \$44.9 million, or 16.2% of non-GAAP revenue.

A description of the process for calculating the measures presented on a constant currency basis is contained under the heading “Non-GAAP Financial Measures” below.

Key Balance Sheet Metrics

Billed and unbilled receivables at September 30, 2017 were \$118.4 million, compared with \$100.0 million at October 1, 2016. Current liabilities at September 30, 2017 were \$97.4 million, compared with \$80.2 million at October 1, 2016.

Total DSO in Q3 of fiscal 2017 were 114 days, consisting of 73 days of billed and 41 days of unbilled. This compares with 108 days we reported in Q3 of fiscal 2016, consisting of 67 days of billed and 41 days of unbilled.

Cash and Cash Flow

Cash and cash equivalents were \$20.9 million at September 30, 2017 compared with \$25.2 million at October 1, 2016.

Capital expenditures totaled approximately \$2.7 million in Q3 of fiscal 2017, compared with \$5.1 million in Q3 of fiscal 2016.

During Q3 of fiscal 2017, approximately 166,000 shares of common stock were repurchased for approximately \$6.1 million. A quarterly cash dividend of \$0.14 per common share, for total dividends of \$1.2 million, was paid in Q3 of fiscal 2017.

NON-GAAP FINANCIAL MEASURES

In addition to reporting its financial results in accordance with U.S. generally accepted accounting principles, or GAAP, CRA has also provided in these remarks and accompanying financial tables non-GAAP financial information. CRA believes that the use of non-GAAP measures in addition to GAAP measures is a useful method of evaluating its results of operations. CRA believes that presenting its financial results excluding the results of GNU123 Liquidating Corporation (“GNU”) formerly known as “NeuCo,” certain non-cash and/or non-recurring charges, and the other items identified below, and including presentations of Adjusted EBITDA and comparisons on a constant currency basis, is important to investors and management because they are more indicative of CRA’s ongoing operating results and financial condition. CRA also uses these non-GAAP measures in its budgeting process, and as performance criteria for some of its performance-based compensation. These non-GAAP financial measures should be considered in conjunction with, but not as a substitute for, the financial information presented in accordance with GAAP, and the results calculated in accordance with GAAP and reconciliations to those results should be carefully evaluated. The non-GAAP financial measures used by CRA may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. Specifically, for the third quarter of fiscal 2017, and the year-to-date period ended as of the third quarter of fiscal 2017, CRA has excluded GNU’s results, impairments on certain intangible assets, and the revaluation changes of contingent consideration liabilities associated with prior acquisitions, and for the third quarter of fiscal 2016 and the year-to-date period ended as of the third quarter of fiscal 2016, CRA has excluded GNU’s results. Also, in calculating “Adjusted EBITDA” from net income (loss) attributable to CRA for these fiscal periods, CRA has excluded net income (loss) attributable to noncontrolling interests (net of tax); interest expense (income), net; provision for income taxes; other (income) expense, net; and the following non-cash expenses: depreciation and amortization, share-based compensation expenses, and amortization of forgivable loans.

Finally, CRA also believes that fluctuations in foreign currency exchange rates can significantly affect its financial results. Therefore, CRA provides a constant currency presentation to supplement disclosures regarding its results of operations and performance. CRA calculates constant currency amounts by converting its applicable fiscal period local currency financial results using the prior fiscal year’s corresponding period exchange rates. CRA has presented in these remarks its GAAP and non-GAAP revenue, net income, net income margin, and earnings per diluted share, and its non-GAAP Adjusted EBITDA and Adjusted EBITDA margin for the third quarter of fiscal 2017 on a constant currency basis relative to the third quarter of fiscal 2016 and for the year-to-date period of fiscal 2017 on a constant currency basis relative to the first three quarters of fiscal 2016.

A reconciliation between the historical GAAP and non-GAAP financial measures presented in these remarks is provided in CRA's third-quarter fiscal 2017 press release posted to the Investor Relations section of CRA's website at <http://www.crai.com> and in the financial tables below.