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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 June 29, 2019**

**or**

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

**(617) 425-3000**
(Registrant's telephone number, including area code)

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

| Title of Each Class | Trading Symbol | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock, no par value | CRAI | Nasdaq Global Select Market |

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 o

Indicate by check mark whether the registrant has submitted electronically 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 such files). Yes ☒ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 o | Accelerated filer ☒ | Non-accelerated filer o | Smaller reporting company o<br>Emerging growth company o |

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. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o 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 July 26, 2019 |
|---|---|

| | |
|---|---|
| Common Stock, no par value per share | 7,875,587 shares |

**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)*

| | Fiscal Quarter Ended | | Fiscal Year-to-Date Period Ended | |
|---|---|---|---|---|
| | June 29, 2019 | June 30, 2018 | June 29, 2019 | June 30, 2018 |
| Revenues | $ 110,573 | $ 105,538 | $ 216,422 | $ 205,014 |
| Costs of services (exclusive of depreciation and amortization) | 75,972 | 69,705 | 149,607 | 139,096 |
| Selling, general and administrative expenses | 23,737 | 23,739 | 46,480 | 45,389 |
| Depreciation and amortization | 2,553 | 2,433 | 5,169 | 4,664 |
| Income from operations | 8,311 | 9,661 | 15,166 | 15,865 |
| Interest expense, net | (519) | (301) | (530) | (338) |
| Other income (expense), net | 155 | 377 | (589) | 136 |
| Income before provision for income taxes | 7,947 | 9,737 | 14,047 | 15,663 |
| Provision for income taxes | 2,367 | 2,898 | 3,802 | 3,938 |
| Net income | $ 5,580 | $ 6,839 | $ 10,245 | $ 11,725 |
| Net income per share: | | | | |
| Basic | $ 0.70 | $ 0.84 | $ 1.28 | $ 1.43 |
| Diluted | $ 0.68 | $ 0.79 | $ 1.23 | $ 1.35 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 7,925 | 8,053 | 7,970 | 8,169 |
| Diluted | 8,218 | 8,550 | 8,282 | 8,649 |

See accompanying notes to the condensed consolidated financial statements.

**CRA INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

*(In thousands)*

| | Fiscal Quarter Ended | | Fiscal Year-to-Date Period Ended | |
|---|---|---|---|---|
| | June 29, 2019 | June 30, 2018 | June 29, 2019 | June 30, 2018 |
| Net income | $ 5,580 | $ 6,839 | $ 10,245 | $ 11,725 |
| Other comprehensive income | | | | |
| Foreign currency translation adjustments | (653) | (2,603) | 59 | (1,285) |
| Comprehensive income | $ 4,927 | $ 4,236 | $ 10,304 | $ 10,440 |

See accompanying notes to the condensed consolidated financial statements.

**CRA INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

*(In thousands, except share data)*

| | June 29, 2019 | December 29, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 15,588 | $ 38,028 |
| Accounts receivable, net of allowances of $3,510 at June 29, 2019 and $3,764 at December 29, 2018 | 87,763 | 94,525 |
| Unbilled services, net of allowances of $1,149 at June 29, 2019 and $415 at December 29, 2018 | 44,334 | 36,060 |
| Prepaid expenses and other current assets | 9,795 | 6,423 |
| Forgivable loans | 7,978 | 6,104 |
| Total current assets | 165,458 | 181,140 |
| Property and equipment, net | 52,003 | 48,088 |
| Goodwill | 88,208 | 88,208 |
| Intangible assets, net | 7,161 | 7,846 |
| Right-of-Use Assets | 114,704 | — |
| Deferred income taxes | 9,286 | 9,330 |
| Forgivable loans, net of current portion | 45,599 | 34,190 |
| Other assets | 3,508 | 2,044 |
| Total assets | $ 485,927 | $ 370,846 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 21,486 | $ 21,938 |
| Accrued expenses | 72,394 | 108,233 |
| Deferred revenue and other liabilities | 4,996 | 6,866 |
| Current portion of lease liabilities | 10,898 | — |
| Current portion of deferred rent | — | 1,810 |
| Current portion of deferred compensation | 2,019 | 3,650 |
| Revolving line of credit | 41,000 | — |
| Total current liabilities | 152,793 | 142,497 |
| Non-current liabilities: | | |
| Deferred compensation and other non-current liabilities | 8,961 | 7,957 |
| Deferred rent and facility-related non-current liabilities | 1,710 | 23,618 |
| Non-current portion of lease liabilities | 127,281 | — |
| Deferred income taxes | 302 | 302 |
| Total non-current liabilities | 138,254 | 31,877 |
| Commitments and contingencies (Note 11) | | |
| 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; 7,829,310 and 8,010,480 shares issued and outstanding at June 29, 2019 and December 29, 2018, respectively | 14,224 | 22,837 |
| Retained earnings | 193,191 | 186,229 |
| Accumulated other comprehensive loss | (12,535) | (12,594) |
| Total shareholders' equity | 194,880 | 196,472 |
| Total liabilities and shareholders' equity | $ 485,927 | $ 370,846 |

See accompanying notes to the condensed consolidated financial statements.

**CRA INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

*(In thousands)*

| | Fiscal Year-to-Date Period Ended | |
|---|---|---|
| | **June 29, 2019** | **June 30, 2018** |
| **OPERATING ACTIVITIES:** | | |
| Net income | $ 10,245 | $ 11,725 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,164 | 4,667 |
| Loss on disposal of property and equipment | 5 | — |
| Deferred rent and facility related liabilities | 50 | 3,695 |
| Right-of-use asset amortization | 4,848 | — |
| Deferred income taxes | 45 | 102 |
| Share-based compensation expenses | 1,759 | 2,438 |
| Accounts receivable allowances | (260) | 188 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,177 | (9,413) |
| Unbilled services, net | (8,245) | (4,766) |
| Prepaid expenses and other current assets, and other assets | (4,506) | 445 |
| Forgivable loans | (14,363) | (12,130) |
| Incentive cash awards | 2,415 | 1,523 |
| Accounts payable, accrued expenses, and other liabilities | (44,511) | (31,275) |
| Lease liabilities | (5,932) | — |
| Net cash used in operating activities | (46,109) | (32,801) |
| **INVESTING ACTIVITIES:** | | |
| Purchases of property and equipment | (3,904) | (8,939) |
| Net cash used in investing activities | (3,904) | (8,939) |
| **FINANCING ACTIVITIES:** | | |
| Issuance of common stock, principally stock options exercises | 1,526 | 916 |
| Borrowings under revolving line of credit | 50,000 | 30,161 |
| Repayments under revolving line of credit | (9,000) | (8,802) |
| Tax withholding payments reimbursed by shares | (388) | (1,783) |
| Cash paid on dividend equivalents | (35) | (98) |
| Cash dividends paid to shareholders | (3,196) | (2,795) |
| Repurchases of common stock | (11,510) | (20,389) |
| Net cash provided by (used in) financing activities | 27,397 | (2,790) |
| Effect of foreign exchange rates on cash and cash equivalents | 176 | (480) |
| Net decrease in cash and cash equivalents | (22,440) | (45,010) |
| Cash and cash equivalents at beginning of period | 38,028 | 54,035 |
| Cash and cash equivalents at end of period | $ 15,588 | $ 9,025 |
| **Noncash investing and financing activities:** | | |
| Purchases of property and equipment not yet paid for | $ 4,053 | $ 4,704 |
| Purchases of property and equipment paid by a third party | $ 62 | $ — |
| Asset retirement obligations | $ 335 | $ 220 |
| Right-of-use assets obtained in exchange for lease obligations | $ 37,284 | $ — |
| Right-of-use assets related to the adoption of ASC 842 | $ 82,329 | $ — |
| Lease liabilities related to the adoption of ASC 842 | $ 106,765 | $ — |
| **Supplemental cash flow information:** | | |
| Cash paid for taxes | $ 3,583 | $ 1,158 |
| Cash paid for interest | $ 510 | $ 273 |

See accompanying notes to the condensed consolidated financial statements.

**CRA INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

**FOR THE FISCAL YEAR-TO-DATE PERIOD ENDED JUNE 29, 2019 (unaudited)**

*(In thousands, except share data)*

| | Common Stock | | | | |
|---|---|---|---|---|---|
| | Shares Issued | Amount | Retained Earnings | Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
| **BALANCE AT DECEMBER 29, 2018** | 8,010,480 | $ 22,837 | $ 186,229 | $ (12,594) | $ 196,472 |
| Net income | — | — | 4,665 | — | 4,665 |
| Foreign currency translation adjustment | — | — | — | 712 | 712 |
| Exercise of stock options | 64,700 | 1,526 | — | — | 1,526 |
| Share-based compensation expense | — | 911 | — | — | 911 |
| Restricted shares vestings | 25,484 | — | — | — | — |
| Redemption of vested employee restricted shares for tax withholding | (8,157) | (388) | — | — | (388) |
| Shares repurchased | (86,609) | (4,349) | — | — | (4,349) |
| Accrued dividends on unvested shares | — | — | (8) | — | (8) |
| Cash paid on dividend equivalents | — | — | (35) | — | (35) |
| Cash dividends paid to shareholders ($0.20 per share) | — | — | (1,616) | — | (1,616) |
| **BALANCE AT MARCH 30, 2019** | 8,005,898 | $ 20,537 | $ 189,235 | $ (11,882) | $ 197,890 |
| Net income | — | — | 5,580 | — | 5,580 |
| Foreign currency translation adjustment | — | — | — | (653) | (653) |
| Share-based compensation expense | — | 848 | — | — | 848 |
| Restricted shares vestings | 513 | — | — | — | — |
| Shares repurchased | (177,101) | (7,161) | — | — | (7,161) |
| Accrued dividends on unvested shares | — | — | (44) | — | (44) |
| Cash dividends paid to shareholders ($0.20 per share) | — | — | (1,580) | — | (1,580) |
| **BALANCE AT JUNE 29, 2019** | 7,829,310 | $ 14,224 | $ 193,191 | $ (12,535) | $ 194,880 |

See accompanying notes to the condensed consolidated financial statements.

# CRA INTERNATIONAL, INC.

## CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

## FOR THE FISCAL YEAR-TO-DATE PERIOD ENDED JUNE 30, 2018 (unaudited)

*(In thousands, except share data)*

| | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|
| | Shares Issued | Amount | Retained Earnings | Accumulated Other Comprehensive Loss | CRA International, Inc. Shareholders' Equity | Noncontrolling Interest | Total Shareholders' Equity |
| **BALANCE AT DECEMBER 30, 2017** | 8,297,172 | $ 47,414 | $ 169,390 | $ (9,896) | $ 206,908 | $ 321 | $ 207,229 |
| Balance at December 31, 2017, as previously reported | 8,297,172 | $ 47,414 | $ 169,390 | $ (9,896) | 206,908 | $ 321 | $ 207,229 |
| Cumulative effect of a change in accounting principle related to ASC 606 | — | — | 366 | — | 366 | — | 366 |
| Balance at December 31, 2017, as adjusted | 8,297,172 | $ 47,414 | $ 169,756 | $ (9,896) | 207,274 | $ 321 | $ 207,595 |
| Net income | — | — | 4,886 | — | 4,886 | — | 4,886 |
| Foreign currency translation adjustment | — | — | — | 1,318 | 1,318 | — | 1,318 |
| Exercise of stock options | 24,688 | 535 | — | — | 535 | — | 535 |
| Share-based compensation expense | — | 1,292 | — | — | 1,292 | — | 1,292 |
| Restricted shares vestings | 97,722 | — | — | — | — | — | — |
| Redemption of vested employee restricted shares for tax withholding | (35,287) | (1,783) | — | — | (1,783) | — | (1,783) |
| Shares repurchased | (162,892) | (8,057) | — | — | (8,057) | — | (8,057) |
| Accrued dividends on unvested shares | — | — | 10 | — | 10 | — | 10 |
| Cash paid on dividend equivalents | — | — | (98) | — | (98) | — | (98) |
| Cash dividends paid to shareholders ($0.17 per share) | — | — | (1,423) | — | (1,423) | — | (1,423) |
| **BALANCE AT MARCH 31, 2018** | 8,221,403 | $ 39,401 | $ 173,131 | $ (8,578) | $ 203,954 | $ 321 | $ 204,275 |
| Net income | — | — | 6,839 | — | 6,839 | — | 6,839 |
| Foreign currency translation adjustment | — | — | — | (2,603) | (2,603) | — | (2,603) |
| Exercise of stock options | 19,395 | 381 | — | — | 381 | — | 381 |
| Share-based compensation expense | — | 1,146 | — | — | 1,146 | — | 1,146 |
| Restricted shares vestings | 513 | — | — | — | — | — | — |
| Shares repurchased | (215,585) | (12,064) | — | — | (12,064) | — | (12,064) |
| Accrued dividends on unvested shares | — | — | (44) | — | (44) | — | (44) |
| Cash dividends paid to shareholders ($0.17 per share) | — | — | (1,372) | — | (1,372) | — | (1,372) |
| **BALANCE AT JUNE 30, 2018** | 8,025,726 | $ 28,864 | $ 178,554 | $ (11,181) | $ 196,237 | $ 321 | $ 196,558 |

See accompanying notes to the condensed consolidated financial statements.

CRA INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**1. Summary of Significant Accounting Policies**

***Description of Business***

CRA International, Inc. ("CRA" or the "Company") 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.

***Principles of Consolidation***

The consolidated financial statements include the accounts of CRA and its wholly owned subsidiaries. In addition, for periods prior to December 30, 2018, the 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 in consolidation.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements reflect the results of operations, financial position, cash flows, and shareholders' equity as of and for the fiscal quarters and fiscal year-to-date periods ending June 29, 2019 and June 30, 2018, 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 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 shareholders' 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 29, 2018 included in CRA's Annual Report on Form 10-K filed with the SEC on February 28, 2019 (the "2018 Form 10-K").

***GNU Interest***

Prior to liquidation of GNU on December 18, 2018, CRA's ownership interest in GNU was 55.89%. For periods prior to December 30, 2018, 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 did not contribute to CRA's results of operations during the fiscal quarters or fiscal year-to-date periods ended June 29, 2019 or June 30, 2018.

***Estimates***

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

**1. Summary of Significant Accounting Policies (Continued)**

these consolidated financial statements include, but are not limited to, allowances for accounts receivable and unbilled services, revenue recognition on fixed price contracts, variable consideration to be included in the transaction price of revenue contracts, depreciation of property and equipment, share-based compensation, valuation of the contingent consideration liability, valuation of acquired intangible assets, impairment of long-lived assets and goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, accrued incentive compensation, and certain 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.

***Recent Accounting Standards Adopted***

*Leases (Topic 842)*

CRA adopted Accounting Standard Update ("ASU") No. 2016-02, Leases (Topic 842), which established Accounting Standards Codification ("ASC") Topic 842 ("ASC 842") and supersedes ASC Topic 840, Leases ("ASC 840"), on December 30, 2018 using the additional modified retrospective transition method provided by ASC 842. The cumulative effect of the transition adjustments was recognized as of the date of adoption.

CRA elected the package of practical expedients provided by ASC 842, which allowed CRA to forgo reassessing the following upon adoption of the new standard: (1) whether contracts contain leases for any expired or existing contracts, (2) the lease classification for any expired or existing leases, and (3) initial direct costs for any existing or expired leases. In addition, CRA elected an accounting policy to exclude from the consolidated balance sheets the right-of-use ("ROU") assets and lease liabilities related to short-term leases, which are those leases with an initial lease term of twelve months or less that do not include an option to purchase the underlying asset that CRA is reasonably certain to exercise. Refer to Note 10 for further discussion of CRA's lease accounting policy.

The reported results for 2019 reflect the application of ASC 842 guidance, whereas comparative periods and their respective disclosures prior to the adoption of ASC 842 are presented using the legacy guidance of ASC 840. As a result of adopting the new standard, CRA recognized ROU assets of $82.3 million and lease liabilities of $106.8 million. The difference between the amount of ROU assets and lease liabilities recognized was an adjustment to deferred rent. There was no adjustment to deferred taxes as a result of CRA's adoption of ASC 842. The adoption of ASC 842 did not have a material impact on CRA's results of operations or cash flows, nor did it have an impact on any of CRA's existing debt covenants.

*Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*

CRA adopted ASU No. 2018-07, *Compensation—Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting (Topic 718)* ("ASU 2018-07") on December 30, 2018.

CRA INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**1. Summary of Significant Accounting Policies (Continued)**

ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this update specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used effectively to provide financing to the issuer or awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, *Revenue from Contracts with Customers*. The new guidance requires a remeasurement of nonemployee awards at fair value as of the adoption date. The adoption of ASU 2018-07 did not have a material impact on CRA's financial position, results of operations, cash flows, or disclosures.

***Recent Accounting Standards Not Yet Adopted***

*Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the methodology that recognizes impairment of financial instruments when losses have been incurred with a methodology that recognizes impairment of financial instruments when losses are expected. The amendment requires entities to use a forward-looking "expected loss" model for most financial instruments, including accounts receivable and loans, that is based on historical information, current information, and reasonable and supportable forecasts. For available-for-sale debt securities with unrealized losses, credit losses will be recognized as an allowance rather than as a reduction in the amortized cost of the debt securities. ASU 2016-13 is effective for CRA for interim and annual periods beginning after December 15, 2019. Early adoption is permitted for interim and annual periods beginning after December 15, 2018. Adoption of ASU 2016-13 will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period after adoption.

In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses* ("ASU 2018-19"). ASU 2018-19 changes the required adoption date for nonpublic business entities and clarifies that receivables arising from operating leases are not within the scope of Topic 326.

CRA has not yet determined the effects, if any, that the adoption of the amendments may have on its financial position, results of operations, cash flows, or disclosures. CRA plans to adopt the amendments during the first quarter of 2020.

*Fair Value Measurements (Topic 820)*

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU No. 2018-13"). The ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements from ASC 820. Entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair

**CRA INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**1. Summary of Significant Accounting Policies (Continued)**

value measurement. The new standard is effective for interim and annual periods beginning after December 15, 2019. Entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. CRA has not yet determined the effects, if any, that the adoption of ASU 2018-13 may have on its financial position, results of operations, cash flows, or disclosures.

*Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). ASU 2018-15 clarifies the accounting for implementation costs in a cloud computing arrangement that is a service contract and aligns the requirements for capitalizing those costs with the capitalization requirements for costs incurred to develop or obtain internal-use software. The new standard is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. CRA is currently evaluating the effects, if any, the adoption of ASU 2018-15 may have on its financial position, results of operations, cash flows, or disclosures.

**2. Fair Value of Financial Instruments**

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 tables show CRA's financial instruments as of June 29, 2019 and December 29, 2018 that are measured and recorded in the condensed consolidated financial statements at fair value on a recurring basis (in thousands):

| | June 29, 2019 | | |
|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets or Liabilities<br>Level 1 | Significant Other Observable Inputs<br>Level 2 | Significant Unobservable Inputs<br>Level 3 |
| *Assets:* | | | |
| Money market mutual funds | $ 148 | $ — | $ — |
| Total Assets | $ 148 | $ — | $ — |
| *Liabilities:* | | | |
| Contingent consideration liability | $ — | $ — | $ 6,631 |
| Total Liabilities | $ — | $ — | $ 6,631 |

**CRA INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

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

| | December 29, 2018 | | |
|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets or Liabilities Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable Inputs Level 3 |
| *Assets:* | | | |
| Money market mutual funds | $ 18,029 | $ — | $ — |
| Total Assets | $ 18,029 | $ — | $ — |
| *Liabilities:* | | | |
| Contingent consideration liability | $ — | $ — | $ 6,197 |
| Total Liabilities | $ — | $ — | $ 6,197 |

The fair value of CRA's money market mutual fund share holdings is $1.00 per share.

The contingent consideration liabilities in the tables above are for estimated future contingent consideration payments related to prior acquisitions. The fair value measurement of these liabilities is based on significant inputs not observed in the market and thus represent a Level 3 measurement. The significant unobservable inputs used in the fair value measurements of these contingent consideration liabilities are CRA's measures of the estimated payouts based on internally generated financial projections and discount rates. The fair value of the contingent consideration was determined using a Monte Carlo simulation. The fair value of these contingent consideration liabilities is 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 costs of services (exclusive of depreciation and amortization) on the condensed consolidated income statement of that period.

The following table summarizes the changes in the contingent consideration liabilities over the fiscal year-to-date period ended June 29, 2019 and the fiscal year ended December 29, 2018 (in thousands):

| | June 29, 2019 | December 29, 2018 |
|---|---|---|
| Beginning balance | $ 6,197 | $ 5,137 |
| Remeasurement of acquisition-related contingent consideration | (629) | (244) |
| Accretion | 1,063 | 1,304 |
| Ending balance | $ 6,631 | $ 6,197 |

### 3. Forgivable Loans

Forgivable loan activity for the fiscal year-to-date period ended June 29, 2019 and the fiscal year ended December 29, 2018 is as follows (in thousands):

| | June 29, 2019 | December 29, 2018 |
|---|---|---|
| Beginning balance | $ 40,294 | $ 28,628 |
| Advances | 23,883 | 30,572 |
| Repayments | (700) | (3,396) |
| Reclassification from accrued expenses | (1,121) | — |
| Amortization | (8,804) | (15,329) |
| Effects of foreign currency translation | 25 | (181) |
| Ending balance | $ 53,577 | $ 40,294 |
| Current portion of forgivable loans | $ 7,978 | $ 6,104 |
| Non-current portion of forgivable loans | $ 45,599 | $ 34,190 |

At June 29, 2019, CRA had no other loans to current and former employees included in other assets on the condensed consolidated balance sheet. At December 29, 2018, CRA had other loans to current and former employees included in other assets on the condensed consolidated balance sheet, amounting to $0.1 million, net of allowances.

### 4. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill during the fiscal year-to-date period ended June 29, 2019, is as follows (in thousands):

| | Goodwill, gross | Accumulated impairment losses | Goodwill, net |
|---|---|---|---|
| Balance at December 29, 2018 | $ 164,625 | $ (76,417) | $ 88,208 |
| Effects of foreign currency translation | — | — | — |
| Balance at June 29, 2019 | $ 164,625 | $ (76,417) | $ 88,208 |

Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and amortized over their expected useful lives. There were no impairment losses related to intangible assets during the fiscal year-to-date period ended June 29, 2019 or June 30, 2018.

**4. Goodwill and Intangible Assets (Continued)**

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

| | June 29, 2019 | December 29, 2018 |
|---|---|---|
| Non-competition agreements, net of accumulated amortization of $175 and $544, respectively | $ 150 | $ 180 |
| Customer relationships, net of accumulated amortization of $5,109 and $4,454, respectively | 7,011 | 7,666 |
| Total, net of accumulated amortization of $5,284 and $4,998, respectively | $ 7,161 | $ 7,846 |

**5. Accrued Expenses**

Accrued expenses consist of the following (in thousands):

| | June 29, 2019 | December 29, 2018 |
|---|---|---|
| Compensation and related expenses | $ 54,403 | $ 90,711 |
| Income taxes payable | 803 | 514 |
| Other | 17,188 | 17,008 |
| Total | $ 72,394 | $ 108,233 |

As of June 29, 2019 and December 29, 2018, approximately $38.1 million and $73.9 million, respectively, of accrued bonuses were included above in "Compensation and related expenses". Additionally, as of June 29, 2019, "Other" accrued expenses included $8.7 million of commissions due to senior consultants, $0.3 million of direct project accruals, $5.5 million of operating expense accruals and $2.7 million of accrued leasehold improvements. As of December 29, 2018, "Other" accrued expenses consisted principally of $9.6 million of commissions due to senior consultants, $0.7 million of direct project accruals, $6.6 million of operating expense accruals and $0.1 million of accrued leasehold improvements.

**6. Credit Agreement**

CRA is party to a credit agreement that provides CRA with a $125.0 million revolving credit facility and a $15.0 million sublimit for the issuance of letters of credit. CRA may use the proceeds of the revolving credit facility to provide working capital and for other general corporate purposes. CRA may repay any borrowings under the revolving credit facility at any time, but no later than October 24, 2022. There were $41.0 million in borrowings outstanding under this revolving credit facility as of June 29, 2019. There were no outstanding borrowings on this facility as of December 29, 2018.

As of June 29, 2019, the amount available under this revolving credit facility was reduced by certain letters of credit outstanding, which amounted to $4.1 million. 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 June 29, 2019 and December 29, 2018, CRA was in compliance with the covenants of its credit agreement.

**CRA INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

## 7. Revenue Recognition

CRA offers consulting services in two broad lines: (1) litigation, regulatory, and financial consulting; and (2) management consulting. Together, these two service lines comprised all of CRA's consolidated revenues during the fiscal quarters and fiscal year-to-date periods ended June 29, 2019 and June 30, 2018.

*Disaggregation of Revenue*

The following table disaggregates CRA's revenue by type of contract and geographic location (in thousands):

| Type of Contract | Fiscal Quarter Ended June 29, 2019 | Fiscal Quarter Ended June 30, 2018 | Fiscal Year-to-Date Period Ended June 29, 2019 | Fiscal Year-to-Date Period Ended June 30, 2018 |
|---|---|---|---|---|
| *Consulting services revenues:* | | | | |
| Fixed Price | $ 25,179 | $ 20,666 | $ 46,565 | $ 41,385 |
| Time-and-materials | 85,394 | 84,872 | 169,857 | 163,629 |
| Total | $ 110,573 | $ 105,538 | $ 216,422 | $ 205,014 |

| Geographic Breakdown | Fiscal Quarter Ended June 29, 2019 | Fiscal Quarter Ended June 30, 2018 | Fiscal Year-to-Date Period Ended June 29, 2019 | Fiscal Year-to-Date Period Ended June 30, 2018 |
|---|---|---|---|---|
| *Consulting services revenues:* | | | | |
| United States | $ 87,475 | $ 85,751 | $ 171,004 | $ 164,157 |
| United Kingdom | 17,404 | 14,858 | 35,911 | 30,064 |
| Other | 5,694 | 4,929 | 9,507 | 10,793 |
| Total | $ 110,573 | $ 105,538 | $ 216,422 | $ 205,014 |

*Reserves for Variable Consideration and Credit Risk*

Revenues from CRA's consulting services are recorded at the net transaction price, which includes estimates of variable consideration for which reserves are established. Variable consideration reserves are based on actual price concessions and those expected to be extended to CRA customers and are recorded as a component of the allowances for accounts receivable and unbilled services. Adjustments to the variable consideration reserves are as follows (in thousands):

| | Fiscal Quarter Ended June 29, 2019 | Fiscal Quarter Ended June 30, 2018 | Fiscal Year-to-Date Period Ended June 29, 2019 | Fiscal Year-to-Date Period Ended June 30, 2018 |
|---|---|---|---|---|
| Adjustments to reserves for variable consideration and credit risk | $ 2,725 | $ 1,998 | $ 4,158 | $ 3,446 |

CRA INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**7. Revenue Recognition (Continued)**

Bad debt expense is reported as a component of selling, general and administrative expense. Bad debt expense is as follows (in thousands):

| | Fiscal Quarter Ended | | Fiscal Year-to-Date Period Ended | |
|---|---|---|---|---|
| | June 29, 2019 | June 30, 2018 | June 29, 2019 | June 30, 2018 |
| Bad debt expense | $ 48 | $ 800 | $ 31 | $ 1,072 |

*Reimbursable Expenses*

Revenues also include reimbursements for costs incurred by CRA in fulfilling its performance obligations, including travel and other out-of-pocket expenses, fees for outside consultants and other reimbursable expenses. CRA recovers substantially all of these costs. The following expenses are subject to reimbursement (in thousands):

| | Fiscal Quarter Ended | | Fiscal Year-to-Date Period Ended | |
|---|---|---|---|---|
| | June 29, 2019 | June 30, 2018 | June 29, 2019 | June 30, 2018 |
| Reimbursable expenses | $ 12,178 | $ 12,087 | $ 25,013 | $ 23,315 |

CRA collects goods and services and value added taxes from customers and records these amounts on a net basis.

*Transaction Price Allocated to Future Performance Obligations*

ASC 606 requires that CRA disclose the aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied as of June 29, 2019. The guidance provides certain practical expedients that limit this requirement for (1) contracts with an original expected length of one year or less and (2) contracts for which revenue is recognized at the amount to which CRA has the right to invoice for consulting services performed. Given the nature of its business, CRA does not disclose the value of unsatisfied performance obligations as the practical expedients apply to its unsatisfied performance obligations as of June 29, 2019.

*Contract Balances from Contracts with Customers*

CRA defines contract assets as assets for which it has recorded revenue because it determines that it is probable that it will earn a performance based or contingent fee, but is not yet entitled to receive a fee, because certain events, such as completion of the measurement period or client approval, must occur. These contract assets are included in accounts receivable, net and unbilled services, net within the consolidated balance sheets. The contract assets balance was immaterial as of June 29, 2019 and December 29, 2018.

CRA defines contract liabilities as advance payments from or billings to its clients for services that have not yet been performed or earned and retainers. These liabilities are recorded within deferred

**7. Revenue Recognition (Continued)**

revenues and are recognized as services are provided. When consideration is received, or such consideration is unconditionally due from a customer prior to transferring consulting services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue after control of the consulting services are transferred to the customer and all revenue recognition criteria have been met.

The following table presents the opening and closing balances of CRA's contract liability (in thousands):

| | Contract Liability | |
|---|---|---|
| | Fiscal Year-to-Date Period Ended June 29, 2019 | Fiscal Year Ended December 29, 2018 |
| Balance at the beginning of the period | $ 5,453 | $ 3,287 |
| Balance at the end of the period | $ 3,432 | $ 5,453 |

During the fiscal quarter and fiscal year-to-date period ended June 29, 2019, CRA recognized the following revenue as a result of changes in the contract liability balance (in thousands):

| | Fiscal Quarter Ended June 29, 2019 | Fiscal Year-to-Date Period Ended June 29, 2019 |
|---|---|---|
| Amounts included in contract liabilities at the beginning of the period | $ 2,560 | $ 4,631 |
| Performance obligations satisfied in previous periods | $ 5,691 | $ 3,590 |

The timing of revenue recognition, billings and cash collections results in billed receivables, unbilled services and contract liabilities on the condensed consolidated balance sheets.

**8. 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 for the period had been distributed. CRA's participating securities consist of unvested share-based payment awards that contain a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common shareholders. Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period, as adjusted for the potential dilutive effect of non-participating share-based awards. Net earnings allocable to these participating securities were not material for the fiscal quarters and fiscal year-to-date periods ended June 29, 2019 and June 30, 2018.

CRA INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

| | Fiscal Quarter Ended | | Fiscal Year-to-Date Period Ended | |
|---|---|---|---|---|
| | June 29, 2019 | June 30, 2018 | June 29, 2019 | June 30, 2018 |
| Net income, as reported | $ 5,580 | $ 6,839 | $ 10,245 | $ 11,725 |
| Less: net income attributable to participating shares | 24 | 39 | 34 | 69 |
| Net income available to common shareholders | $ 5,556 | $ 6,800 | $ 10,211 | $ 11,656 |

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

| | Fiscal Quarter Ended | | Fiscal Year-to-Date Period Ended | |
|---|---|---|---|---|
| | June 29, 2019 | June 30, 2018 | June 29, 2019 | June 30, 2018 |
| Basic weighted average shares outstanding | 7,925 | 8,053 | 7,970 | 8,169 |
| Dilutive stock options and restricted stock units | 293 | 497 | 312 | 480 |
| Diluted weighted average shares outstanding | 8,218 | 8,550 | 8,282 | 8,649 |

For the fiscal quarter and fiscal year-to-date period ended June 29, 2019, 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 45,200 and 31,378 shares, respectively. For the fiscal quarter and fiscal year-to-date period ended June 30, 2018, 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 22,757 and 11,379 shares, respectively. These share-based awards each period were anti-dilutive because their exercise price exceeded the average market price over the respective period.

**9. Income Taxes**

CRA's effective income tax rate was 29.8% for the second quarter of fiscal 2019 and fiscal 2018. The effective tax rate for the second quarter of fiscal 2019 was comparable to that reported for the second quarter of fiscal 2018. The effective tax rate in the second quarter of fiscal 2019 was higher than the combined federal and state statutory tax rate primarily due to non-deductible items resulting from limitations on the deductibility of compensation paid to executive officers and the deductibility of meals and entertainment. The effective tax rate in the second quarter of fiscal 2018 was higher than the combined federal and state statutory tax rate primarily due to the non-deductible items referenced above as well as offsetting discrete items relating to an out-of-period adjustment and the tax benefit on stock-based compensation.

CRA's effective income tax rates were 27.1% and 25.1% for the first half of fiscal 2019 and fiscal 2018, respectively. The effective tax rate for the first half of fiscal 2019 was higher than that reported

**9. Income Taxes (Continued)**

for the first half of fiscal 2018 primarily due to a reduced tax benefit related to stock-based compensation. The effective tax rate in the first half of fiscal 2019 was the same as the combined federal and state statutory tax rate but included the effect of offsetting adjustments primarily driven by the tax benefit on stock-based compensation and non-deductible items resulting from limitations on the deductibility of compensation paid to executive officers and the deductibility of meals and entertainment. The effective tax rate in the first half of fiscal 2018 was lower than the combined federal and state statutory tax rate primarily due to the tax benefit on stock-based compensation, partially offset by the same non-deductible items as those in the current year.

CRA has not provided for deferred income taxes or foreign withholding taxes on undistributed earnings and other basis differences that may exist from its foreign subsidiaries as of June 29, 2019, because such earnings are considered to be indefinitely reinvested. CRA does not rely on these unremitted earnings as a source of funds for its domestic business as it expects to have sufficient cash flow in the U.S. to fund its U.S. operational and strategic needs. If CRA were to repatriate its foreign earnings that are indefinitely reinvested, it would accrue substantially no additional tax expense.

**10. Leases**

CRA is a lessee under certain operating leases for office space and equipment. Prior to adopting ASC 842, CRA followed the lease accounting guidance as issued in ASC 840. Under ASC 840, CRA classified its leases as operating or capital leases based on evaluation of certain criteria of the lease agreement. For leases that contained rent escalations or rent holidays, CRA recorded the total rent expense during the lease term on a straight-line basis over the term of the lease and recorded the difference between the rents paid and the straight-line rent expense as deferred rent on the balance sheet. Any tenant improvement allowances received from the lessor were recorded as a reduction to rent expense over the term of the lease.

ASC 842, which CRA adopted on December 30, 2018, requires lessees to recognize leases on the balance sheet as a lease liability with a corresponding right-of-use asset ("ROU"), subject to certain permitted accounting policy elections. As a result of adopting the new standard, CRA recognized ROU assets of $82.3 million and lease liabilities of $106.8 million related to its operating leases as of December 30, 2018. The difference between the amount of ROU assets and lease liabilities recognized was an adjustment to eliminate the deferred rent balance, which was a component of ASC 840.

Under ASC 842, CRA determines, at the inception of the contract, whether the contract is or contains a lease based on whether the contract provides CRA the right to control the use of a physically distinct asset or substantially all of the capacity of an asset. Leases with an initial noncancelable term of twelve months or less that do not include an option to purchase the underlying asset that CRA is reasonably certain to exercise are classified as short-term leases. CRA has elected as an accounting policy to exclude from the consolidated balance sheets the ROU assets and lease liabilities related to short-term leases. CRA recognizes rent expense for its operating leases on a straight-line basis over the term of the lease.

Many of CRA's equipment leases are short-term or cancellable with notice. CRA's office space leases have remaining lease terms between one and approximately twelve years, many of which include one or more options to extend the term for periods of up to five years for each option. Certain leases

CRA INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**10. Leases (Continued)**

contain options to terminate the lease early, which may include a penalty for exercising the option. Many of the termination options require notice within a specified period, after which the option is no longer available to CRA if not exercised. The extension options and termination options may be exercised at CRA's sole discretion. CRA does not consider in the measurement of ROU assets and lease liabilities an option to extend or terminate a lease if CRA is not reasonably certain to exercise the option. As of June 29, 2019, CRA has not included any options to extend or terminate in its measurement of ROU assets or lease liabilities.

Certain of CRA's leases include covenants that oblige CRA, at its sole expense, to repair and maintain the leased asset periodically during the lease term. CRA is not a party to any leases that contain residual value guarantees nor is CRA a party to any leases that provide an option to purchase the underlying asset.

Many of CRA's office space leases include fixed and variable payments. Variable payments relate to real estate taxes, insurance, operating expenses, and common area maintenance, which are usually billed at actual amounts incurred proportionate to CRA's rented square feet of the building. Variable payments that do not depend on an index or rate are expensed by CRA as they are incurred and are not included in the measurement of the lease liability.

Many of CRA's leases contain both lease and non-lease components. For office space leases, the Company has elected as an accounting policy to account for lease and nonlease components as a single component. For equipment leases, fixed and variable payments are allocated to each component relative to observable or estimated standalone prices. CRA measures its variable lease costs as the portion of variable payments that are allocated to lease components.

CRA measures its lease liability for each leased asset as the present value of lease payments, as defined in ASC 842, allocated to the lease component, discounted using an incremental borrowing rate specific to the underlying asset. CRA's ROU assets are equal to the lease liability, adjusted for lease incentives received, including tenant improvement allowances, and payments made to the lessor prior to the lease commencement date. CRA estimates its incremental borrowing rate for each leased asset based on the interest rate CRA would incur to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment.

The components of CRA's lease expenses, which are included in the condensed consolidated income statement, are as follows (in thousands):

| | Fiscal Quarter Ended June 29, 2019 | Fiscal Year-to-Date Period Ended June 29, 2019 |
|---|---|---|
| Operating lease cost | $ 4,013 | $ 7,224 |
| Short-term lease cost | 81 | 189 |
| Variable lease cost | 1,033 | 1,969 |
| Total lease cost | $ 5,127 | $ 9,382 |

CRA INTERNATIONAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**10. Leases (Continued)**

Supplemental cash flow information related to CRA's leases are as follows (in thousands):

| | Fiscal Year-to-Date Period Ended June 29, 2019 |
|---|---|
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | $8,113 |
| Right-of-use assets obtained in exchange for lease obligations | |
| Operating leases | $37,284 |

The following table presents supplemental balance sheet information related to CRA's operating leases (in thousands):

| | June 29, 2019 |
|---|---|
| *Assets:* | |
| Operating lease right-of-use assets | $114,704 |
| *Liabilities:* | |
| Current portion of lease liabilities | $10,898 |
| Non-current portion of lease liabilities | 127,281 |
| Total operating lease liabilities | $138,179 |
| Weighted average remaining lease term—operating leases | 10.0 years |
| Weighted average discount rate—operating leases | 3.7% |

At June 29, 2019, CRA had the following maturities of lease liabilities related to office space and equipment, all of which are under non-cancellable operating leases (in thousands):

| Fiscal Year | Operating Lease Commitments |
|---|---|
| 2019 (excluding the six months ended June 29, 2019) | 8,318 |
| 2020 | 16,931 |
| 2021 | 16,925 |
| 2022 | 17,009 |
| 2023 | 17,161 |
| Thereafter | 95,007 |
| Total lease payments | 171,351 |
| Less: imputed interest | (33,172) |
| Total | 138,179 |

As of June 29, 2019, CRA had additional operating leases for office space that have not yet commenced that have minimum rental commitments of $21.1 million. These operating leases will commence in fiscal year 2019 and have lease terms of approximately six years to eleven years.

**CRA INTERNATIONAL, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

### 11. Contingencies

CRA is subject to legal actions arising in the ordinary course of business. In management's opinion, based on current knowledge, CRA 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. However, the outcome of such legal actions is inherently unpredictable and subject to inherent uncertainties.

### 12. Correction

During the fourth quarter of fiscal 2018, CRA determined that the change in accounts receivable allowances presented in the March 31, 2018 condensed consolidated statement of cash flows required adjustment. These adjustments in disclosure are immaterial and had no effect on the amount of accounts receivable presented on the March 31, 2018 condensed consolidated balance sheet. As a result of these adjustments, a classification change was required within the operating activities portion of the condensed consolidated statement of cash flows. As of December 29, 2018, these adjustments were corrected and the accounts receivable and accounts receivable allowances were properly presented within the consolidated financial statements.

The following table presents the total classification changes required related to these adjustments for the fiscal year-to-date period ended June 30, 2018 (in thousands):

| | As previously reported | As revised |
|---|---|---|
| Accounts receivable allowances | $ 842 | $ 188 |
| Accounts receivable | $ (9,868) | $ (9,413) |
| Unbilled services | $ (4,965) | $ (4,766) |
| Net cash used in operating activities | $ (32,801) | $ (32,801) |

### 13. Subsequent Events

On August 1, 2019, CRA announced that its Board of Directors declared a quarterly cash dividend of $0.20 per common share, payable on September 13, 2019 to shareholders of record as of August 27, 2019.

During the month of July 2019, CRA repaid $9.0 million on its existing borrowings under its revolving line of credit. After this repayment, $32.0 million of borrowings remain outstanding.

## 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.

Our principal Internet address is www.crai.com. Our website provides a link to a third-party website through which our annual, quarterly, and current reports, and amendments to those reports, are available free of charge. We believe these reports are made available as soon as reasonably practicable after we 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, variable consideration to be included in the transaction price of revenue contracts, depreciation of property and equipment, measurement of operating lease right-of-use assets and liabilities, share-based compensation, valuation of contingent consideration liabilities, valuation of acquired intangible assets, impairment of long lived assets and goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, accrued incentive compensation, and certain 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.

We have described our significant accounting policies in Note 1 to our consolidated financial statements included in the 2018 Form 10-K. 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 the 2018 Form 10-K for a detailed description of these policies and their potential effects on our results of operations and financial condition.

- Revenue recognition and accounts receivable allowances

- Deferred compensation
- Valuation of contingent consideration liability
- Valuation of goodwill and other intangible assets
- Accounting for income taxes

Except for the adoption of ASC 842 as described below, we did not adopt any changes in the fiscal year-to-date period ended June 29, 2019 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 June 29, 2019 that changed these critical accounting policies.

*Leases*

We adopted ASU No. 2016-02, *Leases (Topic 842) (*ASC 842) on December 30, 2018, using the additional modified retrospective transition method provided by ASC 842. The reported results for 2019 reflect the application of ASC 842 guidance while the reported results for 2018 were prepared under the guidance of ASC 840, *Leases* (ASC 840). As a result of adopting the new standard, we recognized ROU assets of $82.3 million and lease liabilities of $106.8 million, of which $9.6 million is classified as a current liability, as of December 30, 2018. The difference between the amount of ROU assets and lease liabilities recognized was an adjustment to deferred rent. Prior periods will not be retrospectively adjusted. See Note 10 to our consolidated condensed financial statements included in this quarterly report on Form 10-Q for a complete description of our accounting policy.

**Recent Accounting Standards**

See Note 1 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 under the heading "Recent Accounting Standards Not Yet Adopted".

**Results of Operations—For the Fiscal Quarter and Fiscal Year-to-Date Period Ended June 29, 2019, Compared to the Fiscal Quarter and Fiscal Year-to-Date Period Ended June 30, 2018**

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

| | Fiscal Quarter Ended | | Fiscal Year-to-Date Period Ended | |
|---|---|---|---|---|
| | June 29, 2019 | June 30, 2018 | June 29, 2019 | June 30, 2018 |
| Revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Costs of services (exclusive of depreciation and amortization) | 68.7 | 66.0 | 69.1 | 67.8 |
| Selling, general and administrative expenses | 21.5 | 22.5 | 21.5 | 22.1 |
| Depreciation and amortization | 2.3 | 2.3 | 2.4 | 2.3 |
| Income from operations | 7.5 | 9.2 | 7.0 | 7.7 |
| Interest expense, net | (0.4) | (0.3) | (0.2) | (0.2) |
| Other income (expense), net | 0.1 | 0.4 | (0.3) | 0.1 |
| Income before provision for income taxes | 7.2 | 9.2 | 6.5 | 7.6 |
| Provision for income taxes | 2.1 | 2.7 | 1.8 | 1.9 |
| Net income | 5.0% | 6.5% | 4.7% | 5.7% |

**Fiscal Quarter Ended June 29, 2019 Compared to the Fiscal Quarter Ended June 30, 2018**

*Revenues.* Revenues increased by $5.1 million, or 4.8%, to $110.6 million for the second quarter of fiscal 2019 from $105.5 million for the second quarter of fiscal 2018. The increase in net revenue was a result of an increase in gross revenues of $5.1 million as compared to the second quarter of fiscal 2018, while write-offs and reserves remained flat compared to the second quarter of 2018. Utilization decreased to 77% for the second quarter of fiscal 2019 from 79% for the second quarter of fiscal 2018, while consultant headcount grew 5.7% from 628 at the end of the second quarter of fiscal 2018 to 664 at the end of the second quarter of fiscal 2019. Client service hours increased by 1.1% for the second quarter 2019 when compared to the second quarter 2018. Included in revenues are the effect of changes in currency exchange rates resulting in a decrease to revenue of $1.2 million for the fiscal quarter ended June 29, 2019, and an increase of $1.2 million for the fiscal quarter ended June 30, 2018.

Overall, revenues outside of the U.S. represented approximately 21% of total revenues for the second quarter of fiscal 2019 compared with approximately 19% of total revenues for the second quarter of fiscal 2018. Revenues derived from fixed-price engagements increased to 23% of total revenues for the second quarter of fiscal 2019 compared with 20% of total revenues for the second quarter of fiscal 2018. 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.

*Costs of Services (exclusive of depreciation and amortization).* Costs of services (exclusive of depreciation and amortization) increased by $6.3 million, or 9.0%, to $76.0 million for the second quarter of fiscal 2019 from $69.7 million for the second quarter of fiscal 2018. The increase in costs of services was due primarily to an increase of $1.2 million in employee compensation and fringe benefit costs attributable to our increased consultant headcount, an increase in incentive and retention compensation costs of $2.4 million, an increase in forgivable loan and incentive awards amortization of $0.2 million, and an increase in expense related to the net change in contingent consideration valuation of $0.7 million. These increased expenses were partially offset by a decrease in stock compensation of $0.3 million. Additionally, client reimbursable expenses increased by $0.4 million in the second quarter of fiscal 2019 compared to the second quarter of fiscal 2018. As a percentage of revenues, costs of services (exclusive of depreciation and amortization) increased to 68.7% for the second quarter of fiscal 2019 from 66.0% for the second quarter of fiscal 2018.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses remained flat at $23.7 million for the second quarter of fiscal 2019. Within this category of expenses, there was a $0.3 million increase in employee compensation and fringe benefit costs, $0.1 million increase in employee and incentive compensation, and $0.6 million increase in rent expense primarily due to additional space in our Boston office. Partially offsetting these increased expenses was a $0.8 million decrease in other operating expenses primarily due to a decrease in legal and other professional fees and a $0.3 million decrease in commissions to our nonemployee experts for the second quarter of fiscal 2019 as compared to the second quarter of fiscal 2018, as a lower percentage of our revenue for the quarter was sourced by our nonemployee experts.

As a percentage of revenues, selling, general and administrative expenses decreased to 21.5% for the second quarter of fiscal 2019 from 22.5% for the second quarter of fiscal 2018. Commissions to our nonemployee experts decreased to 2.9% of revenues for the second quarter of fiscal 2019 compared to 3.3% of revenues for the second quarter of fiscal 2018.

*Provision for Income Taxes.* The income tax provision was $2.4 million and the effective tax rate was 29.8% for the second quarter of fiscal 2019 compared to $2.9 million and 29.8% for the second quarter of fiscal 2018. The effective tax rate for the second quarter of fiscal 2019 was comparable to that reported for the second quarter of fiscal 2018. The effective tax rate in the second quarter of fiscal

2019 was higher than the combined federal and state statutory tax rate primarily due to non-deductible items resulting from limitations on the deductibility of compensation paid to executive officers and the deductibility of meals and entertainment. The effective tax rate in the second quarter of fiscal 2018 was higher than the combined federal and state statutory tax rate primarily due to the non-deductible items referenced above as well as offsetting discrete items relating to an out-of-period adjustment and the tax benefit on stock-based compensation.

*Net Income.* Net income decreased by $1.2 million to $5.6 million for the second quarter of fiscal 2019 from $6.8 million for the second quarter of fiscal 2018. The net income per diluted share was $0.68 per share for the second quarter of fiscal 2019, compared to $0.79 of net income per diluted share for the second quarter of fiscal 2018. Weighted average diluted shares outstanding decreased by approximately 332,000 shares to approximately 8,218,000 shares for the second quarter of fiscal 2019 from approximately 8,550,000 shares for the second quarter of fiscal 2018. The decrease in weighted average diluted shares outstanding was primarily due to the repurchase of shares of our common stock since the first half of fiscal 2018, offset in part by the issuance or vesting of shares of restricted stock and time-vesting restricted stock units, and the exercise of stock options, since the second quarter of fiscal 2018.

**Fiscal Year-to-Date Period Ended June 29, 2019 Compared to the Fiscal Year-to-Date Period Ended June 30, 2018**

*Revenues.* Revenues increased by $11.4 million, or 5.6%, to $216.4 million for the fiscal year-to-date period ended June 29, 2019 from $205.0 million for the fiscal year-to-date period ended June 30, 2018. The increase in net revenue was a result of an increase in gross revenues of $12.8 million as compared to the first half of fiscal 2018, offset by an increase in write-offs and reserves of $1.4 million as compared to the first half of fiscal 2018. Included in revenues are the effect of changes in currency exchange rates resulting in a decrease in revenue of $2.7 million for the first half of fiscal 2019 and an increase in revenue of $3.4 million for the first half of fiscal 2018, respectively. Utilization remained flat at 76% for the first half of fiscal 2019 relative to the first half of fiscal 2018, while consultant headcount increased during the first half of fiscal 2019.

Overall, revenues outside of the U.S. represented approximately 21% and 20% of total revenues for the fiscal year-to-date period ended June 29, 2019 and the fiscal year-to-date period ended June 30, 2018, respectively. Revenues derived from fixed-price engagements were 22% and 20% of total revenues for the fiscal year-to-date period ended June, 29, 2019 and the fiscal year-to-date period ended June 30, 2018, 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.

*Costs of Services (exclusive of depreciation and amortization).* Costs of services *(exclusive of depreciation and amortization)* increased by $10.5 million, or 7.5%, to $149.6 million for the fiscal year-to-date period ended June 29, 2019 from $139.1 million for the fiscal year-to-date period ended June 30, 2018. The increase in costs of services was due primarily to an increase of $2.9 million in employee compensation and fringe benefit costs associated with our increased consulting headcount, an increase in incentive and retention compensation costs of $4.1 million, an increase in forgivable loan and incentive awards amortization of $2.0 million, and an increase in the valuation of the contingent consideration of $0.4 million, partially offset by a decrease in stock compensation expense of $0.7 million. Additionally, client reimbursable expenses increased by $1.7 million in the first half of fiscal 2019 compared to the first half of fiscal 2018. As a percentage of revenues, costs of services (exclusive of depreciation and amortization) increased to 69.1% for the first half of fiscal 2019 from 67.8% for the first half of fiscal 2018.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased by $1.1 million, or 2.4%, to $46.5 million for the first half of fiscal 2019 from $45.4 million for the first half of fiscal 2018. The primary contributor to this increase was an increase in employee and incentive compensation of $1.0 million, a $0.4 million increase in travel and entertainment, a $0.5 million increase in training and marketing, a $0.4 million increase in subscriptions and licenses, and $0.2 million in other operating expenses, offset by a $0.4 million decrease in legal and other professional fees and a $1.0 million decrease in bad debt expense.

As a percentage of revenues, selling, general and administrative expenses decreased to 21.5% for the fiscal year-to-date period ended June 29, 2019 from 22.1% for the fiscal year-to-date period ended June 30, 2018 due primarily to the increase in revenues. Commissions to our nonemployee experts decreased to 3.0% of revenues for the fiscal year-to-date period ended June 29, 2019 compared to 3.2% of revenues for the fiscal year-to-date period ended June 30, 2018 as less revenue was sourced by nonemployee experts in the first half of fiscal 2019 compared to the first half of fiscal 2018.

*Provision for Income Taxes.* For fiscal year-to-date period ended June 29, 2019, our income tax provision was $3.8 million, and the effective tax rate was 27.1%, compared to a provision of $3.9 million and an effective tax rate of 25.1% for the fiscal year-to-date period ended June 30, 2018. The effective tax rate for the first half of fiscal 2019 was higher than that reported for the first half of fiscal 2018 primarily due to a reduced tax benefit related to stock-based compensation. The effective tax rate in the first half of fiscal 2019 was the same as the combined federal and state statutory tax rate but had the impact of offsetting adjustments primarily due to the tax benefit on stock-based compensation and non-deductible items resulting from limitations on the deductibility of compensation paid to executive officers and the deductibility of meals and entertainment. The effective tax rate in the first half of fiscal 2018 was lower than the combined federal and state statutory tax rate primarily due to the tax benefit on stock-based compensation, partially offset the same non-deductible items as those in the current year.

*Net Income.* Net income decreased by $1.5 million to $10.2 million for the fiscal year-to-date period ended June 29, 2019 from $11.7 million for the fiscal year-to-date period ended June 30, 2018. The diluted net income per share was $1.23 for the fiscal year-to-date period ended June 29, 2019, compared to diluted net income per share of $1.35 for the fiscal year-to-date period ended June 30, 2018. Diluted weighted average shares outstanding decreased by approximately 367,000 to approximately 8,282,000 shares for the fiscal year-to-date period ended June 29, 2019 from approximately 8,649,000 shares for the fiscal year-to-date period ended June 30, 2018. The decrease in weighted average diluted shares outstanding was primarily due to the repurchase of shares of our common stock since the first half of fiscal 2018, offset in part by the issuance or vesting of shares of restricted stock and time-vesting restricted stock units, and the exercise of stock options, since the second quarter of fiscal 2018.

**Liquidity and Capital Resources**

***Fiscal Year-to-Date Period Ended June 29, 2019***

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

*General.* During the fiscal year-to-date period ended June 29, 2019, cash and cash equivalents decreased by $22.4 million. We completed the period with cash and cash equivalents of $15.6 million and working capital (defined as current assets less current liabilities) of $12.7 million. The principal drivers of the reduction of cash were payment of a significant portion of our fiscal 2018 performance bonuses in the second quarter of 2019, the funding of forgivable loans, the repurchase of shares, and capital expenditures related to the buildout of the expanded Boston office space, offset by net borrowings of $41.0 million.

Of the total cash and cash equivalents held at June 29, 2019, $7.7 million was held within the U.S. We have sufficient sources of liquidity in the U.S., including cash from operations and availability on our revolving line of credit, to fund U.S. activities. At June 29, 2019, we had outstanding borrowings on the revolving line of credit of $41.0 million, which is expected to be repaid within the next twelve months.

*Sources and Uses of Cash.* During the fiscal year-to-date period ended June 29, 2019, net cash used in operating activities was $46.1 million. Net income was $10.2 million for the fiscal year-to-date period ended June 29, 2019. The primary factor in cash used in operations was the decrease in the "accounts payable, accrued expenses, and other liabilities" line item of our consolidated statement of cash flows of $44.5 million due to the payment of a significant portion of our fiscal 2018 performance bonuses during the second quarter of fiscal 2019. Other uses of cash included an increase of $8.2 million in unbilled receivables, a $4.5 million increase in prepaid expenses and other current assets and a $5.9 million decrease in lease liabilities. The change in forgivable loans for the period of $14.4 million was primarily driven by $23.2 million of forgivable loan issuances, net of repayments, offset by $8.8 million of forgivable loan amortization. Offsetting these uses of cash was a $7.2 million decrease in accounts receivable, net. Cash provided by operations included non-cash depreciation and amortization expense of $5.2 million and share-based compensation expenses of $1.8 million, offset by $4.8 million in right-of-use asset amortization.

During the fiscal year-to-date period ended June 29, 2019, net cash used in investing activities was $3.9 million for capital expenditures.

Net cash provided by financing activities during the second quarter of fiscal 2019 was $27.4 million, primarily as a result of borrowings under the line of credit of $50.0 million and $1.5 million received upon the issuance of shares of common stock related to the exercise of stock options. Offsetting these increases in cash were the tax withholding payments reimbursed by restricted shares of $0.4 million, payment of $3.2 million of cash dividends to shareholders, repayment of $9.0 million under the revolving line of credit, and $11.5 million of repurchases of common stock.

***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 October 24, 2022. There was $41.0 million in outstanding borrowings under this revolving line of credit as of June 29, 2019.

The amount available under this revolving line of credit is reduced by certain letters of credit outstanding, which amounted to $4.1 million as of June 29, 2019. 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 0.25% and 1.25% 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 1.25% and 2.25% 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 0.20% and 0.35% 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 $30.9 million in net assets as of June 29, 2019.

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

***Forgivable Loans and Term Loans***

In order to attract and retain highly skilled professionals, we may issue forgivable loans or term loans to employees and non-employee experts. A portion of these loans is collateralized by key person life insurance. 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 employees and non-employee experts 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. Increases in estimated awards are expensed prospectively over the remaining service period. Decreases in estimated awards are recorded in the period incurred. 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 and Talent 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 will depend on several factors, including our future profitability, the levels of our debt and equity, restrictions under our existing revolving line of credit with our bank, and the overall credit and equity market environments.

***Share Repurchases***

In February 2018 and February 2019, our Board of Directors authorized expansions to our existing share repurchase program, each authorizing the purchase of an additional $20.0 million of our common stock. We may repurchase shares under this program in open market purchases (including through any Rule 10b5-1 plan adopted by us) or in privately negotiated transactions in accordance with applicable insider trading and other securities laws and regulations. During the fiscal quarter and fiscal year-to-date period ended June 29, 2019, we repurchased and retired 177,101 shares and 263,710 shares, respectively, under our share repurchase program at an average price per share of $40.47 and

$43.68, respectively. During the fiscal quarter and fiscal year-to-date period ended June 30, 2018, we repurchased and retired 215,585 shares and 378,477 shares, respectively, under our share repurchase program at an average price per share of $55.99 and $53.90, respectively. As of June 29, 2019, we had approximately $10.1 million available for future repurchases under our share repurchase program. We plan to finance future repurchases with available cash, cash from future operations and funds from our existing revolving credit facility. We expect to continue to repurchase shares under our share repurchase program.

***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. During the fiscal quarter and fiscal year-to-date period ended June 29, 2019, we paid dividends of $1.6 million and $3.3 million, respectively. During the fiscal quarter and fiscal year-to-date period ended June 30, 2018, we paid dividends of $1.4 million and $2.9 million respectively, to our shareholders.

***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 and short-term borrowings. 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.

**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 the 2018 Form 10-K. 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 the 2018 Form 10-K.

**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. This is done in order to ensure that information we are required to disclose in the reports that are filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 29, 2019, due to the material weaknesses in internal control over financial reporting related to the inadequate design or execution of internal controls over the completeness and accuracy of: 1) our contingent consideration and incentive-based compensation liabilities, including our internal controls over revenue forecasts and certain other assumptions used in the computation of these liabilities; 2) revenue and related reserves; 3) certain accounts payable and expense accruals; and 4) the evaluation of certain technical tax matters described in Item 9A of the 2018 Form 10-K.

Notwithstanding these material weaknesses, management has concluded that the condensed consolidated financial statements included in this quarterly report on Form 10-Q present fairly, in all material aspects, our financial position at the end of, and the 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 Chief Financial Officer, we evaluated whether there were any changes in our internal control over financial reporting during the second quarter of fiscal 2019. Except for the ongoing remediation of the material weaknesses in internal controls over financial reporting noted above pursuant to the plan described in Item 9A of the 2018 Form 10-K, and the implementation of ASC 842 as described below, there were no changes in our internal control over financial reporting identified in connection with the above evaluation that occurred during the second quarter of fiscal 2019, except those disclosed below, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

On December 30, 2018, we implemented ASC 842, *Leases*. The new lease accounting standard has a material impact on our financial position and related disclosures; consequently, we have implemented changes to our processes related to the identification of and accounting for leases and the control activities related thereto. These changes included developing new accounting and operational policies, providing internal training, refining ongoing lease contract review requirements, and establishing processes for the gathering of information provided for disclosures.

*Plan for Remediation of Material Weakness*

We are committed to remediating the control deficiencies that gave rise to the material weaknesses described above. Management is responsible for implementing changes and improvements to our internal control over financial reporting and for remediating the control deficiencies that gave rise to these material weaknesses. During fiscal 2019, we are enhancing our system of internal controls over financial reporting with the following actions:

- Maintaining the Special Internal Controls Committee to guide our remediation efforts;
- Continuing our evaluation of the design and operation of our internal controls related to revenue and related reserves, contingent consideration, incentive-based compensation, income taxes, accounts payable and accrued expenses, including the evaluation of automated controls;
- Developing and implementing new management review procedures and controls over revenue forecasts and assumptions used in the computation of contingent consideration;
- Evaluating our management review procedures and controls over revenue forecasts and related assumptions used in the computation of, incentive-based compensation;
- Providing additional training on the importance of review controls and related documentation as well as effective review and documentation procedures;
- Evaluating areas of the finance organization for further technological advancements, such as accounts payable, accrued expenses, and incentive-based compensation to ensure the timeliness, completeness, and accuracy of our accounting records and enhanced reporting;

- Continuing refinement of our accounting policies, procedures, controls as well as broadening formalized documentation of our control policies; and

- Engaged a third-party specialist to assist in the assessment of our tax function, including our information technology capabilities, processes and systems.

*Important Considerations*

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

## PART II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

None.

### ITEM 1A. Risk Factors

There has been no material change in any risk factors previously disclosed in on the 2018 Form 10-K. See "Risk Factors" in the 2018 Form 10-K 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 June 29, 2019. 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 second quarter of fiscal 2019.

**Issuer Purchases of Equity Securities**

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| March 31, 2019 to April 27, 2019 | — | — | — | $ 17,241,813 |
| April 28, 2019 to May 25, 2019 | 134,688 | $ 41.44 | 134,688 | $ 11,659,955 |
| May 26, 2019 to June 29, 2019 | 42,413 | $ 37.37 | 42,413 | $ 10,075,100 |

On each of February 2, 2018 and February 13, 2019, our Board of Directors authorized an expansion to our existing share repurchase program of an additional $20.0 million of outstanding shares of our common stock. We may repurchase shares under this program in open market purchases (including through any Rule 10b5-1 plan adopted by us) or in privately negotiated transactions in accordance with applicable insider trading and other securities laws and regulations. During the four weeks ended May 25, 2019, we repurchased and retired 134,688 shares under this program at an average price per share of $41.44. During the five weeks ended June 29, 2019, we repurchased and retired 42,413 shares under this program at an average price per share of $37.37. Approximately $10.1 million was available for future repurchases under this program as of June 29, 2019. We expect to continue to repurchase shares under this program.

## ITEM 3. Defaults Upon Senior Securities

None.

## ITEM 4. Mine Safety Disclosures

None.

## ITEM 5. Other Information

None.

## ITEM 6. EXHIBIT INDEX

| Item No. | Description |
|---|---|
| 10.1 | Office Lease dated June 18, 2019 between 601 City Center LLC and CRA International, Inc. (incorporated by reference to Exhibit 10.1 to our current report on form 8-K filed on June 24, 2019) |
| 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 June 29, 2019, 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 June 29, 2019 and June 30, 2018, (ii) Condensed Consolidated Statements of Comprehensive Income (unaudited) for the fiscal quarters ended June 29, 2019 and June 30, 2018, (iii) Condensed Consolidated Balance Sheets (unaudited) as at June 29, 2019 and December 30, 2018, (iv) Condensed Consolidated Statements of Cash Flows (unaudited) for the fiscal quarters ended June 29, 2019 and June 30, 2018, (v) Condensed Consolidated Statement of Shareholders' Equity (unaudited) for the fiscal quarters ended June 29, 2019 and June 30, 2018, and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited). |

## 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: August 1, 2019 | By: | /s/ PAUL A. MALEH |
| | | Paul A. Maleh<br>*President and Chief Executive Officer* |
| Date: August 1, 2019 | By: | /s/ CHAD M. HOLMES |
| | | Chad M. Holmes<br>*Chief Financial Officer, Executive Vice President and Treasurer* |
| Date: August 1, 2019 | By | /s/ DOUGLAS C. MILLER |
| | | Douglas C. Miller<br>*Vice President and Chief Accounting Officer* |

**Exhibit 31.1**

**CERTIFICATION**

I, Paul A. Maleh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CRA International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect adversely the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Date: August 1, 2019 | By: | /s/ PAUL A. MALEH |
| | | Paul A. Maleh<br>President and Chief Executive Officer |

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**Exhibit 31.2**

**CERTIFICATION**

I, Chad M. Holmes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CRA International, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect adversely the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Date: August 1, 2019 | By: | /s/ CHAD M. HOLMES |
| | | Chad M. Holmes<br>Chief Financial Officer, Executive Vice President and Treasurer |

QuickLinks

Exhibit 31.2

CERTIFICATION

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**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. §1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CRA International, Inc. (the "Company") for the quarter ended June 29, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned President and Chief Executive Officer and Executive Vice President, Treasurer, and Chief Financial Officer of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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|---|---|
| /s/ PAUL A. MALEH | /s/ CHAD M. HOLMES |
| Paul A. Maleh<br>President and Chief Executive Officer<br>Date: August 1, 2019 | Chad M. Holmes<br>Chief Financial Officer, Executive Vice President<br>and Treasurer<br>Date: August 1, 2019 |