CRAWFORD & CO
Form 10-Q
August 08, 2016
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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended June 30, 2016

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from ____ to ____

Commission file number 1-10356

CRAWFORD & COMPANY
(Exact name of Registrant as specified in its charter)

Georgia	58-0506554
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1001 Summit Boulevard	
Atlanta, Georgia	30319
(Address of principal executive offices)	(Zip Code)

(404) 300-1000
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of shares outstanding of each class of the Registrant's common stock, as of July 29, 2016, was as follows:

Class A Common Stock, $1.00 par value: 30,927,920
Class B Common Stock, $1.00 par value: 24,690,172

CRAWFORD & COMPANY
Quarterly Report on Form 10-Q
Quarter Ended June 30, 2016

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Part I — Financial Information

Item 1. Financial Statements
CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Three Months Ended June 30,	
(In thousands, except per share amounts)	2016	2015
Revenues:		
Revenues before reimbursements	$282,343	$304,398
Reimbursements	15,326	20,018
Total Revenues	297,669	324,416
Costs and Expenses:		
Costs of services provided, before reimbursements	200,362	232,108
Reimbursements	15,326	20,018
Total costs of services	215,688	252,126
Selling, general, and administrative expenses	61,060	57,221
Corporate interest expense, net of interest income of $151 and $195, respectively	2,523	2,042
Restructuring and special charges	3,526	4,242
Total Costs and Expenses	282,797	315,631
Other Income	405	102
Income Before Income Taxes	15,277	8,887
Provision for Income Taxes	6,116	4,709
Net Income	9,161	4,178
Net Income Attributable to Noncontrolling Interests	(534)	(124)
Net Income Attributable to Shareholders of Crawford & Company	$8,627	$4,054
Earnings Per Share - Basic:		
Class A Common Stock	$0.16	$0.08
Class B Common Stock	$0.14	$0.06
Earnings Per Share - Diluted:		
Class A Common Stock	$0.16	$0.08
Class B Common Stock	$0.14	$0.06

Weighted-Average Shares Used to Compute Basic Earnings Per Share:		
Class A Common Stock	30,725	30,673
Class B Common Stock	24,690	24,690
Weighted-Average Shares Used to Compute Diluted Earnings Per Share:		
Class A Common Stock	31,253	31,137
Class B Common Stock	24,690	24,690
Cash Dividends Per Share:		
Class A Common Stock	$0.07	$0.07
Class B Common Stock	$0.05	$0.05

(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Six Months Ended June 30,	
(In thousands, except per share amounts)	2016	2015
Revenues:		
Revenues before reimbursements	$559,577	$592,175
Reimbursements	29,000	38,857
Total Revenues	588,577	631,032
Costs and Expenses:		
Costs of services provided, before reimbursements	401,795	451,431
Reimbursements	29,000	38,857
Total costs of services	430,795	490,288
Selling, general, and administrative expenses	117,857	117,608
Corporate interest expense, net of interest income of $221 and $360, respectively	5,291	3,906
Restructuring and special charges	5,943	5,305
Total Costs and Expenses	559,886	617,107
Other Income	522	484
Income Before Income Taxes	29,213	14,409
Provision for Income Taxes	11,423	6,950
Net Income	17,790	7,459
Net Income Attributable to Noncontrolling Interests	(533)	(419)
Net Income Attributable to Shareholders of Crawford & Company	$17,257	$7,040
Earnings Per Share - Basic:		
Class A Common Stock	$0.33	$0.15
Class B Common Stock	$0.29	$0.11
Earnings Per Share - Diluted:		
Class A Common Stock	$0.33	$0.14
Class B Common Stock	$0.29	$0.11
Weighted-Average Shares Used to Compute Basic Earnings Per Share:		
Class A Common Stock	30,635	30,597

Class B Common Stock	24,690	24,690
Weighted-Average Shares Used to Compute Diluted Earnings Per Share:		
Class A Common Stock	31,031	31,079
Class B Common Stock	24,690	24,690
Cash Dividends Per Share:		
Class A Common Stock	$0.14	$0.14
Class B Common Stock	$0.10	$0.10

(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

(In thousands)	Three Months Ended June 30, 2016	2015
Net Income	$9,161	$4,178
Other Comprehensive Income		
Net foreign currency translation gain (loss), net of tax of $0 and $0, respectively	5,864	(625)
Amortization of actuarial losses for retirement plans included in net periodic pension cost, net of tax of $1,107 and $995, respectively	2,141	2,036
Other Comprehensive Income	8,005	1,411
Comprehensive Income	17,166	5,589
Comprehensive (income) loss attributable to noncontrolling interests	(65)	182
Comprehensive Income Attributable to Shareholders of Crawford & Company	$17,101	$5,771

(In thousands)	Six Months Ended June 30, 2016	2015
Net Income	$17,790	$7,459
Other Comprehensive Income (Loss):		
Net foreign currency translation gain (loss), net of tax of $0 and $0, respectively	3,447	(11,258)
Amortization of actuarial losses for retirement plans included in net periodic pension cost, net of tax of $2,213 and $2,071, respectively	4,282	4,801
Other Comprehensive Income (Loss)	7,729	(6,457)
Comprehensive Income	25,519	1,002
Comprehensive loss attributable to noncontrolling interests	550	310
Comprehensive Income Attributable to Shareholders of Crawford & Company	$26,069	$1,312

(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(In thousands)	June 30, 2016	* December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$59,365	$ 76,066
Accounts receivable, less allowance for doubtful accounts of $14,769 and $13,133, respectively	170,178	164,596
Unbilled revenues, at estimated billable amounts	113,027	98,659
Income taxes receivable	4,255	4,255
Prepaid expenses and other current assets	32,031	26,601
Total Current Assets	378,856	370,177
Property and Equipment:		
Property and equipment	134,390	140,383
Less accumulated depreciation	(102,077)	(102,331)
Net Property and Equipment	32,313	38,052
Other Assets:		
Goodwill	94,681	95,616
Intangible assets arising from business acquisitions, net	97,666	104,861
Capitalized software costs, net	80,913	79,996
Deferred income tax assets	45,728	47,371
Other noncurrent assets	51,702	47,333
Total Other Assets	370,690	375,177
TOTAL ASSETS	$781,859	$ 783,406

* Derived from the audited Consolidated Balance Sheet
(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS — CONTINUED
Unaudited

(In thousands, except par value amounts)	June 30, 2016	* December 31, 2015
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities:		
Short-term borrowings	$19,371	$ 19,958
Accounts payable	44,993	44,615
Accrued compensation and related costs	68,151	68,843
Self-insured risks	14,244	14,122
Income taxes payable	6,441	4,419
Deferred rent	13,229	13,303
Other accrued liabilities	44,649	44,577
Deferred revenues	43,136	46,552
Current installments of long-term debt and capital leases	1,757	1,959
Total Current Liabilities	255,971	258,348
Noncurrent Liabilities:		
Long-term debt and capital leases, less current installments	216,944	225,365
Deferred revenues	25,936	26,592
Self-insured risks	9,897	9,354
Accrued pension liabilities	114,510	121,732
Other noncurrent liabilities	17,100	17,664
Total Noncurrent Liabilities	384,387	400,707
Shareholders' Investment:		
Class A common stock, $1.00 par value; 50,000 shares authorized; 30,801 and 30,537 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	30,801	30,537
Class B common stock, $1.00 par value; 50,000 shares authorized; 24,690 shares issued and outstanding	24,690	24,690
Additional paid-in capital	45,153	41,936
Retained earnings	249,656	239,161
Accumulated other comprehensive loss	(213,819)	(222,631)
Shareholders' Investment Attributable to Shareholders of Crawford & Company	136,481	113,693
Noncontrolling interests	5,020	10,658
Total Shareholders' Investment	141,501	124,351
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$781,859	$ 783,406

* Derived from the audited Consolidated Balance Sheet
(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Six Months Ended June 30,	
(In thousands)	2016	2015
Cash Flows From Operating Activities:		
Net income	$17,790	$7,459
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	20,558	21,407
Stock-based compensation	1,957	1,280
(Gain) loss on disposals of property and equipment, net	(8)	33
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable, net	(7,437)	13,338
Unbilled revenues, net	(13,306)	(11,507)
Accrued or prepaid income taxes	3,224	2,371
Accounts payable and accrued liabilities	1,949	(16,777)
Deferred revenues	(4,084)	(308)
Accrued retirement costs	(5,247)	(12,794)
Prepaid expenses and other operating activities	(3,937)	5,718
Net cash provided by operating activities	11,459	10,220
Cash Flows From Investing Activities:		
Acquisitions of property and equipment	(4,588)	(5,333)
Capitalization of computer software costs	(8,749)	(10,871)
Payments for business acquisitions, net of cash acquired	(3,672)	(66,077)
Other investing activities	(95)	—
Net cash used in investing activities	(17,104)	(82,281)
Cash Flows From Financing Activities:		
Cash dividends paid	(6,762)	(6,757)
Payments related to shares received for withholding taxes under stock-based compensation plans	(4)	(2)
Proceeds from shares purchased under employee stock-based compensation plans	449	444
Decrease in note payable for stock repurchase	(2,206)	—
Repurchases of common stock	—	(137)
Increases in short-term and revolving credit facility borrowings	51,471	117,672
Payments on short-term and revolving credit facility borrowings	(52,825)	(24,951)
Payments on capital lease obligations	(935)	(1,072)
Dividends paid to noncontrolling interests	(210)	—
Other financing activities	(12)	(2)
Net cash (used in) provided by financing activities	(11,034)	85,195
Effects of exchange rate changes on cash and cash equivalents	(22)	(3,136)
(Decrease) increase in cash and cash equivalents	(16,701)	9,998
Cash and cash equivalents at beginning of year	76,066	52,456
Cash and cash equivalents at end of period	$59,365	$62,454

(See accompanying notes to condensed consolidated financial statements)

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CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT
Unaudited
(In thousands)

	Common Stock				Accumulated	Shareholders' Investment Attributable to Shareholders of Crawford & Company		
2016	Class A Non-Voting	Class B Voting	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss		Noncontrolling Interests	Total Shareholders' Investment
Balance at January 1, 2016	$30,537	$24,690	$41,936	$239,161	$(222,631)	$113,693	$10,658	$124,351
Net income (loss)	—	—	—	8,630	—	8,630	(1)	8,629
Other comprehensive income (loss)	—	—	—	—	338	338	(614)	(276)
Cash dividends paid	—	—	—	(3,373)	—	(3,373)	—	(3,373)
Stock-based compensation	—	—	729	—	—	729	—	729
Common stock activity, net	14	—	—	—	—	14	—	14
Acquisition of noncontrolling interests	—	—	1,079	—	—	1,079	(4,879)	(3,800)
Dividends paid to noncontrolling interests	—	—	—	—	—	—	(186)	(186)
Balance at March 31, 2016	30,551	24,690	43,744	244,418	(222,293)	121,110	4,978	126,088
Net income	—	—	—	8,627	—	8,627	534	9,161
Other comprehensive income (loss)	—	—	—	—	8,474	8,474	(469)	8,005
Cash dividends paid	—	—	—	(3,389)	—	(3,389)	—	(3,389)
Stock-based compensation	—	—	1,228	—	—	1,228	—	1,228
Common stock activity, net	250	—	181	—	—	431	—	431
Dividends paid to noncontrolling interests	—	—	—	—	—	—	(23)	(23)
Balance at June 30, 2016	$30,801	$24,690	$45,153	$249,656	$(213,819)	$136,481	$5,020	$141,501

	Common Stock				Accumulated	Shareholders' Investment Attributable to Shareholders of Crawford & Company		
2015	Class A Non-Voting	Class B Voting	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss		Noncontrolling Interests	Total Shareholders' Investment
	$30,497	$24,690	$38,617	$301,091	$(221,958)	$172,937	$6,416	$179,353

Balance at January 1, 2015								
Net income	—	—	—	2,986	—	2,986	295	3,281
Other comprehensive loss	—	—	—	—	(7,445)	(7,445)	(423)	(7,868)
Cash dividends paid	—	—	—	(3,373)	—	(3,373)	—	(3,373)
Stock-based compensation	—	—	404	—	—	404	—	404
Common stock activity, net	36	—	(44)	(120)	—	(128)	—	(128)
Increase in value of noncontrolling interest due to acquisition	—	—	—	—	—	—	5,926	5,926
Balance at March 31, 2015	30,533	24,690	38,977	300,584	(229,403)	165,381	12,214	177,595
Net income	—	—	—	4,054	—	4,054	124	4,178
Other comprehensive income (loss)	—	—	—	—	1,717	1,717	(306)	1,411
Cash dividends paid	—	—	—	(3,384)	—	(3,384)	—	(3,384)
Stock-based compensation	—	—	876	—	—	876	—	876
Common stock activity, net	173	—	260	—	—	433	—	433
Balance at June 30, 2015	$30,706	$24,690	$40,113	$301,254	$(227,686)	$169,077	$12,032	$181,109

(See accompanying notes to condensed consolidated financial statements)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Based in Atlanta, Georgia, Crawford & Company ("Crawford" or "the Company") is one of the world's largest independent providers of claims management solutions to the risk management and insurance industry, as well as to self-insured entities, with an expansive global network serving clients in more than 70 countries. The Crawford Solution[SM] offers comprehensive, integrated claims services, business process outsourcing and consulting services for major product lines including property and casualty claims management; workers' compensation claims and medical management; and legal settlement administration.
Shares of the Company's two classes of common stock are traded on the New York Stock Exchange ("NYSE") under the symbols CRDA and CRDB, respectively. The Company's two classes of stock are substantially identical, except with respect to voting rights and the Company's ability to pay greater cash dividends on the non-voting Class A Common Stock than on the voting Class B Common Stock, subject to certain limitations. In addition, with respect to mergers or similar transactions, holders of Class A Common Stock must receive the same type and amount of consideration as holders of Class B Common Stock, unless different consideration is approved by the holders of 75% of the Class A Common Stock, voting as a class. The Company's website is www.crawfordandcompany.com. The information contained on, or hyperlinked from, the Company's website is not a part of, and is not incorporated by reference into, this report.

1. Basis of Presentation
The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the "SEC"). Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. Operating results for the three months and six months ended, and the Company's financial position as of, June 30, 2016 are not necessarily indicative of the results or financial position that may be expected for the year ending December 31, 2016 or for other future periods. The financial results from the Company's operations outside of the U.S., Canada, the Caribbean, and certain subsidiaries in the Philippines, are reported and consolidated on a two-month delayed basis (fiscal year-end of October 31) as permitted by GAAP in order to provide sufficient time for accumulation of their results.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. In the opinion of management, all adjustments (consisting only of normal recurring accruals and adjustments) considered necessary for a fair presentation have been included. There have been no material changes to our significant accounting policies and estimates from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
Certain prior period amounts among the segments have been reclassified to conform to the current presentation. These reclassifications had no effect on the Company's reported consolidated results. Significant intercompany transactions have been eliminated in consolidation.
The Condensed Consolidated Balance Sheet information presented herein as of December 31, 2015 has been derived from the audited consolidated financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
The Company consolidates the liabilities of its deferred compensation plan and the related assets, which are held in a rabbi trust and considered a variable interest entity ("VIE") of the Company. The rabbi trust was created to fund the liabilities of the Company's deferred compensation plan. The Company is considered the primary beneficiary of the rabbi trust because the Company directs the activities of the trust and can use the assets of the trust to satisfy the

liabilities of the Company's deferred compensation plan. At June 30, 2016 and December 31, 2015, the liabilities of the deferred compensation plan were $9,460,000 and $9,861,000, respectively, which represented obligations of the Company rather than of the rabbi trust, and the values of the assets held in the related rabbi trust were $16,061,000 and $15,881,000, respectively. These liabilities and assets are included in "Other noncurrent liabilities" and "Other noncurrent assets," respectively, on the Company's unaudited Condensed Consolidated Balance Sheets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

The Company owns 51% of the capital stock of Lloyd Warwick International Limited ("LWI"). The Company has also agreed to provide financial support to LWI of up to approximately $10,000,000. Because of this controlling financial interest, and because Crawford has the obligation to absorb certain of LWI's losses through the additional financial support that LWI may require, LWI is considered a VIE of the Company. LWI also does not meet the business scope exception, as Crawford provides more than half of its financial support, and because LWI lacks sufficient equity at risk to permit it to carry on its activities without this additional financial support. Creditors of LWI have no recourse to Crawford's general credit. Accordingly, Crawford is considered the primary beneficiary and consolidates LWI. Total assets and liabilities of LWI as of June 30, 2016 were $9,411,000 and $11,711,000, respectively. Total assets and liabilities of LWI as of December 31, 2015 were $8,831,000 and $11,841,000, respectively. Included in LWI's total liabilities is a loan from Crawford of $10,089,000 and $10,214,000 as of June 30, 2016 and December 31, 2015 respectively.

2. Business Acquisitions

On December 1, 2014, the Company acquired 100% of the capital stock of GAB Robins Holdings UK Limited ("GAB Robins"), a U.K. based international loss adjusting and claims management provider, for cash consideration of $71,812,000. During 2015, the Company paid an additional $2,182,000 related to net debt and net working capital adjustments under the terms of the acquisition agreement, which increased the purchase price to $73,994,000. The purchase was accounted for under the guidance of Accounting Standards Codification ("ASC") 805-10 as a business combination under the acquisition method. The purchase price included $6,329,000 placed in escrow for up to two years related to certain acquired contingencies per the terms of the acquisition agreement. As of June 30, 2016, $1,600,000 of the escrowed amount has been released. The acquisition was funded primarily through borrowings in the U.K. under the Company's credit facility.

Intangible assets acquired include customer relationships, trademarks, internally developed software and non-compete agreements. The intangibles acquired are made up largely of customer relationships of $38,210,000 being amortized over an estimated life of 14 years, and the remaining intangible assets are being amortized over periods ranging from two to five years. For the three months and six months ended June 30, 2016, the Company recognized amortization expense of $858,000 and $1,754,000, respectively, in its unaudited condensed consolidated financial statements related to these intangibles. Goodwill is attributable to the synergies of the work force in place and business resources as a result of the combination of the companies. Goodwill attributable to the acquisition will not be deductible for tax purposes.

On December 15, 2015, the Company acquired an additional 36% of the capital stock of GAB Robins Aviation Limited, a U.K.-based international aviation loss adjusting and claims management provider, for $3,672,000, bringing its total ownership interest to 95%. The Company acquired its initial 59% ownership interest in GAB Robins Aviation Limited through its acquisition of GAB Robins and because of its controlling financial interest, the Company consolidates GAB Robins Aviation Limited. The Company accounted for this subsequent acquisition as an equity transaction in accordance with ASC 810-10.

3. Recently Issued Accounting Standards

Improvements to Employee Share-Based Payment Accounting

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Improvements to Employee Share-Based Payment Accounting." This update was issued as part of a simplification effort for the accounting of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendment is effective for annual periods beginning after December 15, 2016, and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the effect this amendment may have on its results of operations, financial condition and cash flows.

Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued ASU 2016-07, "Simplifying the Transition to the Equity Method of Accounting." This update eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments in this update are effective for all entities for fiscal years, and interim periods beginning after December 15, 2016. The Company is currently evaluating the effect this amendment may have on its results of operations, financial condition and cash flows.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Financial Accounting for Leases
In February 2016, the FASB issued ASU 2016-02, "Financial Accounting for Leases." Under this update, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, this ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The update is effective for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the effect this update may have on its results of operations, financial condition and cash flows.
Revenue from Contracts with Customers
In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." Under ASU 2014-09, companies will be required to recognize revenue to depict the transfer of control for goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and modify guidance for multiple-element arrangements. In August 2015, the FASB issued ASU 2015-14, which deferred by one year the effective date of ASU 2014-09. The one year deferral of the effective date of this standard changed the effective date for the Company to January 1, 2018. Early adoption is permitted, but not before the original effective date. During March 2016 the FASB issued ASU 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." The amendments in this update clarify the implementation guidance on principal versus agent consideration. ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing," was issued in April 2016 to clarify the identification of performance obligations and to provide additional implementation guidance related to revenue from licensing arrangements. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients," to clarify the collectibility criteria in the identification of a valid contract with a customer in step one of the revenue recognition process, among other clarifications. All of the above amendments to the guidance were issued with the same effective dates as ASU 2014-09. The Company is currently evaluating its arrangements with customers and revenue streams against the requirements of this standard and the expected effect this update may have on its results of operations, financial condition and cash flows.
Accounting for Fees Paid in a Cloud Computing Arrangement
In April 2015, the FASB issued ASU 2015-05, "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU amended guidance on internal use software to clarify how customers in cloud computing arrangements should determine whether the arrangement includes a software license. The new guidance specifies that these licenses should be accounted for as licenses of intangible assets. The guidance is effective for annual periods, including interim periods within those annual periods beginning after December 15, 2015. The Company adopted this guidance during the quarter ended March 31, 2016, and it did not have any material effect on its results of operations, financial condition and cash flows.
Amendments to the Consolidation Analysis
In February 2015, FASB issued ASU 2015-02, "Consolidation (topic 810): Amendments to the Consolidation Analysis." ASU 2015-02 focuses on the consolidation evaluation for reporting organizations (public and private companies) that are required to evaluate whether they should consolidate certain legal entities. The standard is effective for fiscal years beginning after December 15, 2015, and interim periods within those years. The Company adopted this standard during the quarter ended March 31, 2016 with no impact to its results of operations, financial

condition and cash flows.

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4. Derivative Instruments

In February 2011, the Company entered into a U.S. dollar and Canadian dollar ("CAD") cross currency basis swap with an initial notional amount of CAD34,749,000 as an economic hedge to an intercompany note payable to the U.S. parent by a Canadian subsidiary. The cross currency basis swap requires the Canadian subsidiary to deliver quarterly payments of CAD589,000 to the counterparty and entitles the U.S. parent to receive quarterly payments of U.S. $593,000. The Canadian subsidiary also makes interest payments to the counterparty based on 3-month Canada Bankers Acceptances plus a spread, and the U.S. parent receives payments based on U.S. 3-month LIBOR. The cross currency basis swap expires on September 30, 2025. The Company has elected to not designate this swap as a hedge of the intercompany note from the Canadian subsidiary. Accordingly, changes in the fair value of this swap, as well as changes in the value of the intercompany note, are recorded as gains or losses in "Selling, general, and administrative expenses" in the Company's unaudited Condensed Consolidated Statements of Operations over the term of the swap and are expected to substantially offset one another. The changes in the fair value of the cross currency basis swap will not exactly offset changes in the value of the intercompany note, as the fair value of this swap is determined based on forward rates while the value of the intercompany note is determined based on end of period spot rates. The net gains and losses for the three months and six months ended June 30, 2016 and 2015 were not significant. The Company believes there have been no material changes in the creditworthiness of the counterparty to this cross currency basis swap agreement and believes the risk of nonperformance by such party is minimal.

This swap agreement contains a provision providing that if the Company is in default under its credit facility, the Company may also be deemed to be in default under the swap agreement. If there were such a default, the Company could be required to contemporaneously settle some or all of the obligation under the swap agreement at values determined at the time of default. At June 30, 2016, no such default existed, and the Company had no assets posted as collateral under its swap agreement.

5. Income Taxes

The Company's consolidated effective income tax rate may change periodically due to changes in enacted tax rates, fluctuations in the mix of income earned from the Company's various domestic and international operations, which are subject to income taxes at different rates, the Company's ability to utilize net operating loss and tax credit carryforwards, and amounts related to uncertain income tax positions. At June 30, 2016, the Company estimates that its effective income tax rate for 2016 will be approximately 38% after considering known discrete items. The Company's effective tax rate was lower in the 2016 periods compared with the comparable periods of 2015 primarily due to the permanent extension of the U.S. federal research and development credit, fluctuations in the mix of income earned, changes in enacted tax rates, and lower current year losses in jurisdictions with lower tax rates or in jurisdictions where the losses are unable to be benefited.

6. Defined Benefit Pension Plans

Net periodic benefit cost related to all of the Company's defined benefit pension plans recognized in the Company's unaudited Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2016 and 2015 included the following components:

	Three months ended		Six months ended	
(in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Service cost	$368	$671	$658	$1,432
Interest cost	8,664	8,045	16,572	16,272
Expected return on assets	(10,938)	(10,323)	(20,758)	(20,824)
Amortization of actuarial loss	3,541	2,952	6,818	6,264

Net periodic benefit cost	$1,635	$1,345	$3,290	$3,144

For the six-month period ended June 30, 2016, the Company made contributions of $6,000,000 and $3,072,000 to its U.S. and U.K. defined benefit pension plans, respectively, compared with contributions of $6,000,000 and $3,303,000, respectively, in the comparable periods of 2015. The Company is not required to make any additional contributions to its U.S. or U.K. defined benefit pension plans for the remainder of 2016; however, the Company expects to make additional contributions of approximately $3,000,000 and $3,200,000 to its U.S. and U.K. plans, respectively, during the remainder of 2016.

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7. Net Income Attributable to Shareholders of Crawford & Company per Common Share
The Company computes earnings per share of its non-voting Class A Common Stock ("CRDA") and voting Class B Common Stock ("CRDB") using the two-class method, which allocates the undistributed earnings in each period to each class on a proportionate basis. The Company's Board of Directors has the right, but not the obligation, to declare higher dividends on the CRDA shares than on the CRDB shares, subject to certain limitations. In periods when the dividend is the same for CRDA and CRDB or when no dividends are declared or paid to either class, the two-class method generally will yield the same earnings per share for CRDA and CRDB. During the first two quarters of 2016 and 2015 the Board of Directors declared a higher dividend on CRDA than on CRDB.
The computations of basic net income attributable to shareholders of Crawford & Company per common share were as follows:

	Three months ended				Six months ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
(in thousands, except per share amounts)	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB
Earnings per share - basic:								
Numerator:								
Allocation of undistributed earnings	$2,904	$2,334	$371	$299	$5,811	$4,683	$156	$127
Dividends paid	2,155	1,234	2,149	1,235	4,294	2,469	4,288	2,469
Net income attributable to common shareholders, basic	$5,059	$3,568	$2,520	$1,534	$10,105	$7,152	$4,444	$2,596
Denominator:								
Weighted-average common shares outstanding, basic	30,725	24,690	30,673	24,690	30,635	24,690	30,597	24,690
Earnings per share - basic	$0.16	$0.14	$0.08	$0.06	$0.33	$0.29	$0.15	$0.11

The computations of diluted net income attributable to shareholders of Crawford & Company per common share were as follows:

	Three months ended				Six months ended			
	June 30, 2016		June 30, 2015		June 30, 2016		June 30, 2015	
(in thousands, except per share amounts)	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB
Earnings per share - diluted:								
Numerator:								
Allocation of undistributed earnings	$2,926	$2,312	$374	$296	$5,844	$4,650	$157	$126
Dividends paid	2,155	1,234	2,149	1,235	4,294	2,469	4,288	2,469
Net income attributable to common shareholders, diluted	$5,081	$3,546	$2,523	$1,531	$10,138	$7,119	$4,445	$2,595
Denominator:								
Weighted-average common shares outstanding, basic	30,725	24,690	30,673	24,690	30,635	24,690	30,597	24,690
Weighted-average effect of dilutive securities	528	—	464	—	396	—	482	—
Weighted-average common shares outstanding, diluted	31,253	24,690	31,137	24,690	31,031	24,690	31,079	24,690
Earnings per share - diluted	$0.16	$0.14	$0.08	$0.06	$0.33	$0.29	$0.14	$0.11

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Listed below are the shares excluded from the denominator in the above computation of diluted earnings per share for CRDA because their inclusion would have been antidilutive:

(in thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Shares underlying stock options excluded due to the options' respective exercise prices being greater than the average stock price during the period	—	15	74	15
Performance stock grants excluded because performance conditions have not been met (1)	1,000	2,094	1,000	2,094

(1) Compensation cost is recognized for these performance stock grants based on expected achievement rates; however, no consideration is given to these performance stock grants when calculating earnings per share until the performance measurements have been achieved. The performance measurements for approximately 574,000 outstanding performance stock grants as of June 30, 2016 are expected to be achieved by December 31, 2016.

The following table details shares issued during the three months and six months ended June 30, 2016 and June 30, 2015. These shares are included from their dates of issuance in the weighted-average common shares used to compute basic earnings per share for CRDA in the table above. There were no shares of CRDB issued during any of these periods.

(in thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
CRDA issued under non-employee director stock plan	113	7	119	55
CRDA issued under the U.K. ShareSave Scheme	134	96	141	96
CRDA issued under the Executive Stock Bonus Plan	3	70	4	74

The Company's share repurchase authorization, approved in August 2014, provides the Company with the ability to repurchase up to 2,000,000 shares of CRDA or CRDB (or both) through July 2017 (the "2014 Repurchase Authorization"). Under the 2014 Repurchase Authorization, repurchases may be made in open market or privately negotiated transactions at such times and for such prices as management deems appropriate, subject to applicable contractual and regulatory restrictions.

During the three months and six months ended June 30, 2016, the Company did not repurchase any shares. During the three months and six months ended June 30, 2015, the Company repurchased 0 and 17,700 shares of CRDA at an average cost of $0.00 and $7.79 per share. The Company did not repurchase any shares of CRDB during any of these periods.

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8. Accumulated Other Comprehensive Loss

Comprehensive income (loss) for the Company consists of the total of net income, foreign currency translation adjustments, and accrued pension and retiree medical liability adjustments. The changes in components of "Accumulated other comprehensive loss" ("AOCL"), net of taxes and noncontrolling interests, included in the Company's unaudited condensed consolidated financial statements were as follows:

	Three months ended June 30, 2016			Six months ended June 30, 2016		
(in thousands)	Foreign currency translation adjustments	Retirement liabilities (1)	AOCL attributable to shareholders of Crawford & Company	Foreign currency translation adjustments	Retirement liabilities (1)	AOCL attributable to shareholders of Crawford & Company
Beginning balance	$(26,150)	$(196,143)	$(222,293)	$(24,347)	$(198,284)	$(222,631)
Other comprehensive income before reclassifications	6,333	—	6,333	4,530	—	4,530
Amounts reclassified from accumulated other comprehensive income	—	2,141	2,141	—	4,282	4,282
Net current period other comprehensive income	6,333	2,141	8,474	4,530	4,282	8,812
Ending balance	$(19,817)	$(194,002)	$(213,819)	$(19,817)	$(194,002)	$(213,819)

	Three months ended June 30, 2015			Six months ended June 30, 2015		
(in thousands)	Foreign currency translation adjustments	Retirement liabilities (1)	AOCL attributable to shareholders of Crawford & Company	Foreign currency translation adjustments	Retirement liabilities (1)	AOCL attributable to shareholders of Crawford & Company
Beginning balance	$(14,869)	$(214,534)	$(229,403)	(4,659)	(217,299)	$(221,958)
Other comprehensive loss before reclassifications	(319)	—	(319)	(10,529)	—	(10,529)
Amounts reclassified from accumulated other comprehensive income	—	2,036	2,036	—	4,801	4,801
Net current period other comprehensive (loss) income	(319)	2,036	1,717	(10,529)	4,801	(5,728)
Ending balance	$(15,188)	$(212,498)	$(227,686)	$(15,188)	$(212,498)	$(227,686)

(1) Retirement liabilities reclassified to net income are related to the amortization of actuarial losses and are included in "Selling, general, and administrative expenses" in the Company's unaudited Condensed Consolidated Statements of Operations. See Note 6, "Defined Benefit Pension Plans" for additional details.

The other comprehensive loss amounts attributable to noncontrolling interests shown in the Company's unaudited Condensed Consolidated Statements of Shareholders' Investment are foreign currency translation adjustments.

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9. Fair Value Measurements
The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis and that are categorized using the fair value hierarchy:

		Fair Value Measurements at June 30, 2016		
(in thousands)	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	$10,032	$10,032	$ —	$ —
Derivative not designated as hedging instrument:				
Cross currency basis swap (2)	4,694	—	4,694	—
Liabilities:				
Contingent earnout liability (3)	1,889	—	—	1,889

(1) The fair values of the money market funds were based on recently quoted market prices and reported transactions in an active marketplace. Money market funds are included in the Company's unaudited Condensed Consolidated Balance Sheets as "Cash and cash equivalents."

(2) The fair value of the cross currency basis swap was derived from a discounted cash flow analysis based on the terms of the swap and the forward curves for foreign currency rates and interest rates adjusted for the counterparty's credit risk. The fair value of the cross currency basis swap is included in "Other noncurrent assets" on the Company's unaudited Condensed Consolidated Balance Sheets, based upon the term of the cross currency basis swap.

(3) The fair value of the contingent earnout liability for the 2014 acquisition of Buckley Scott Holdings Limited ("Buckley Scott") was estimated using an internally-prepared probability-weighted discounted cash flow analysis. The fair value analysis relied upon both Level 2 data (publicly observable data such as market interest rates and capital structures of peer companies) and Level 3 data (internal data such as the Company's operating projections). As such, the liability is a Level 3 fair value measurement. The valuation is sensitive to Level 3 data, with a maximum possible earnout of $1,993,000 at June 30, 2016. As such, the fair value is not expected to vary materially from the balance recorded. The fair value of the contingent earnout liability is included in "Other accrued liabilities" on the Company's unaudited Condensed Consolidated Balance Sheets, based upon the term of the contingent earnout agreement. The fair value of the earnout was $1,921,000, with a maximum possible earnout of $2,027,000, at December 31, 2015. The change in the Level 3 fair value at June 30, 2016 was due to foreign currency translation adjustments and imputed interest.

Fair Value Disclosures
There were no transfers of assets between fair value levels during the three months or six months ended June 30, 2016. The categorization of assets and liabilities within the fair value hierarchy and the measurement techniques are reviewed quarterly. Any transfers between levels are deemed to have occurred at the end of the quarter.
The fair values of accounts receivable, unbilled revenues, accounts payable and short-term borrowings approximate their respective carrying values due to the short-term maturities of the instruments. The interest rate on the Company's variable rate long-term debt resets at least every 90 days; therefore, the carrying value approximates fair value. These

assets and liabilities are measured within Level 2 of the hierarchy.

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10. Segment Information
Financial information for the three months and six months ended June 30, 2016 and 2015 related to the Company's reportable segments, including a reconciliation from segment operating earnings to income before income taxes, the most directly comparable GAAP financial measure, is presented below.

(in thousands)	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues:				
U.S. Services	$58,839	$66,898	$117,343	$123,603
International	123,235	129,483	240,757	253,508
Broadspire	75,099	73,693	151,299	143,365
Garden City Group	25,170	34,324	50,178	71,699
Total segment revenues before reimbursements	282,343	304,398	559,577	592,175
Reimbursements	15,326	20,018	29,000	38,857
Total revenues	$297,669	$324,416	$588,577	$631,032
Segment Operating Earnings:				
U.S. Services	$9,579	$9,835	$18,633	$13,996
International	10,973	1,167	18,007	3,510
Broadspire	6,529	6,003	15,234	9,546
Garden City Group	2,691	3,721	4,186	8,672
Total segment operating earnings	29,772	20,726	56,060	35,724
Deduct:				
Unallocated corporate and shared costs, net	(5,889)	(3,043)	(10,507)	(7,345)
Net corporate interest expense	(2,523)	(2,042)	(5,291)	(3,906)
Stock option expense	(137)	(178)	(227)	(327)
Amortization of customer-relationship intangible assets	(2,420)	(2,334)	(4,879)	(4,432)
Restructuring and special charges	(3,526)	(4,242)	(5,943)	(5,305)
Income before income taxes	$15,277	$8,887	$29,213	$14,409

Intersegment transactions are not material for any period presented.

Operating earnings is the primary financial performance measure used by the Company's senior management and chief operating decision maker ("CODM") to evaluate the financial performance of the Company's four operating segments and make resource allocation decisions. The Company believes this measure is useful to others in that it allows them to evaluate segment operating performance using the same criteria used by the Company's senior management and CODM. Operating earnings will differ from net income computed in accordance with GAAP since operating earnings represent segment earnings before certain unallocated corporate and shared costs, net corporate interest expense, stock option expense, amortization of customer-relationship intangible assets, restructuring and special charges, income taxes, and net income or loss attributable to noncontrolling interests.

Segment operating earnings includes allocations of certain corporate and shared costs. If the Company changes its allocation methods or changes the types of costs that are allocated to its four operating segments, prior period amounts presented in the current period financial statements are adjusted to conform to the current allocation process.

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Revenues before reimbursements by major service line in the U.S. Services segment and the Broadspire segment are shown in the following table. It is not practicable to provide revenues by service line for the International segment. The Company considers all Garden City Group revenues to be derived from one service line.

(in thousands)	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
U.S. Services				
U.S. Claims Field Operations	$20,145	$21,845	$40,609	$43,696
U.S. Technical Services	7,204	7,431	13,930	14,086
U.S. Catastrophe Services	11,423	21,491	25,955	36,969
Subtotal U.S. Claims Services	38,772	50,767	80,494	94,751
U.S. Contractor Connection	20,067	16,131	36,849	28,852
Total Revenues before Reimbursements--U.S. Services	$58,839	$66,898	$117,343	$123,603
Broadspire				
Workers' Compensation, Disability and Liability Claims Management	$31,670	$30,352	$63,882	$59,537
Medical Management Services	39,923	39,678	80,284	76,318
Risk Management Information Services	3,506	3,663	7,133	7,510
Total Revenues before Reimbursements--Broadspire	$75,099	$73,693	$151,299	$143,365

11. Commitments and Contingencies

As part of the Company's credit facility, the Company maintains a letter of credit facility to satisfy certain of its own contractual requirements. At June 30, 2016, the aggregate committed amount of letters of credit outstanding under the credit facility was $17,103,000.

In the normal course of its business, the Company is sometimes named as a defendant or responsible party in suits or other actions by insureds or claimants contesting decisions made by the Company or its clients with respect to the settlement of claims. Additionally, certain clients of the Company have in the past brought, and may, in the future bring, claims for indemnification on the basis of alleged actions by the Company, its agents, or its employees in rendering services to clients. The majority of these claims are of the type covered by insurance maintained by the Company. However, the Company is responsible for the deductibles and self-insured retentions under various insurance coverages. In the opinion of Company management, adequate provisions have been made for such known and foreseeable risks.

The Company is subject to numerous federal, state, and foreign labor, employment, worker health and safety, antitrust and competition, environmental and consumer protection, import/export, anti-corruption, and other laws, and from time to time the Company faces claims and investigations by employees, former employees, and governmental entities under such laws. Such claims, investigations, and any litigation involving the Company could divert management's time and attention from the Company's business operations and could potentially result in substantial costs of defense, settlement or other disposition, which could have a material adverse effect on the Company's results of operations, financial position, and cash flows. In the opinion of Company management, adequate provisions have been made for any items that are probable and reasonably estimable.

The agreement relating to the 2014 acquisition of Buckley Scott contains an earnout provision based on Buckley Scott achieving certain financial results during the two-year period following the completion of the acquisition, with a current estimated fair value of $1,889,000. The maximum potential earnout is $1,993,000.

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The Company has voluntarily self-reported to the Securities and Exchange Commission (the "SEC") and the Department of Justice (the "DOJ") certain potential violations of the Foreign Corrupt Practices Act discovered by the Company during the course of its regular internal audit process. Upon discovery, the Company, with the oversight of the Audit Committee and the Board of Directors, proactively initiated an investigation into this matter with the assistance of external legal counsel and external forensic accountants. The Company has been cooperating fully, and expects to continue to cooperate fully, with the SEC and the DOJ in this matter. The Company cannot currently predict when or what, if any, action may be taken by the SEC or the DOJ, or other governmental authorities, or the effect any such actions may have on the Company's results of operations, cash flows or financial position.

12. Restructuring and Special Charges
Restructuring Charges
Restructuring charges for the three months and six months ended June 30, 2016 of $3,026,000 and $5,170,000 were incurred related to the establishment and phase in of the Company's Global Business Services Center in Manila, Philippines and Global Technology Services Center in Pune, India (the "Centers"), integration costs related to the GAB Robins acquisition and other restructuring activities in the International segment, and asset impairments and lease termination costs.
The following table shows the costs incurred by type of restructuring activity:

	Three months ended		Six months ended	
(in thousands)	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Implementation and phase-in of the Centers	$1,973	$1,196	$2,402	$2,259
Asset impairments and lease termination costs	337	—	1,165	—
Integration costs related to the GAB Robins acquisition and International segment restructuring	716	1,938	1,603	1,938
Restructuring activities for U.S. Services segment	—	1,108	—	1,108
Total restructuring charges	$3,026	$4,242	$5,170	$5,305

Costs associated with the Centers were primarily for professional fees and severance costs. Integration costs related to the GAB Robins acquisition and International segment restructuring were predominantly made up of severance and professional fees and other costs.
As of June 30, 2016, the following liabilities remained on the Company's unaudited Condensed Consolidated Balance Sheets related to restructuring charges recorded in 2012, 2015, and 2016. The rollforward of these costs to June 30, 2016 were as follows:

	Three months ended June 30, 2016				
(in thousands)	Deferred rent	Accrued compensation and related costs	Accounts payable	Other accrued liabilities	Total
Beginning balance, March 31, 2016	$3,355	$ 2,256	$ 405	$ 3,209	$9,225
Additions	396	1,757			