CRAWFORD & CO
Form 10-Q
November 07, 2016

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 September 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 October 31, 2016, was as follows:

Class A Common Stock, $1.00 par value: 30,966,733

Class B Common Stock, $1.00 par value: 24,690,172

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

Table of Contents

Table of Contents

Part I — Financial Information

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

	Three Months Ended September 30,	
(In thousands, except per share amounts)	2016	2015
Revenues:		
Revenues before reimbursements	$277,286	$293,335
Reimbursements	18,101	16,649
Total Revenues	295,387	309,984
Costs and Expenses:		
Costs of services provided, before reimbursements	193,453	211,106
Reimbursements	18,101	16,649
Total costs of services	211,554	227,755
Selling, general, and administrative expenses	60,325	61,738
Corporate interest expense, net of interest income of $278 and $227, respectively	2,262	2,332
Restructuring and special charges	1,488	11,078
Total Costs and Expenses	275,629	302,903
Other Income	197	217
Income Before Income Taxes	19,955	7,298
Provision for Income Taxes	8,606	8,385
Net Income (Loss)	11,349	(1,087)
Net (Income) Loss Attributable to Noncontrolling Interests	(404)	230
Net Income (Loss) Attributable to Shareholders of Crawford & Company	$10,945	$(857)
Earnings (Loss) Per Share - Basic:		
Class A Common Stock	$0.21	$(0.01)
Class B Common Stock	$0.19	$(0.03)
Earnings (Loss) Per Share - Diluted:		
Class A Common Stock	$0.20	$(0.01)
Class B Common Stock	$0.18	$(0.03)

Weighted-Average Shares Used to Compute Basic Earnings (Loss) Per Share:		
Class A Common Stock	30,922	30,807
Class B Common Stock	24,690	24,690
Weighted-Average Shares Used to Compute Diluted Earnings (Loss) Per Share:		
Class A Common Stock	31,665	30,807
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)

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Nine Months Ended September 30,	
(In thousands, except per share amounts)	2016	2015
Revenues:		
Revenues before reimbursements	$836,863	$885,510
Reimbursements	47,101	55,506
Total Revenues	883,964	941,016
Costs and Expenses:		
Costs of services provided, before reimbursements	595,248	662,537
Reimbursements	47,101	55,506
Total costs of services	642,349	718,043
Selling, general, and administrative expenses	178,182	179,346
Corporate interest expense, net of interest income of $498 and $587, respectively	7,553	6,238
Restructuring and special charges	7,431	16,383
Total Costs and Expenses	835,515	920,010
Other Income	719	701
Income Before Income Taxes	49,168	21,707
Provision for Income Taxes	20,029	15,335
Net Income	29,139	6,372
Net Income Attributable to Noncontrolling Interests	(937)	(189)
Net Income Attributable to Shareholders of Crawford & Company	$28,202	$6,183
Earnings Per Share - Basic:		
Class A Common Stock	$0.54	$0.14
Class B Common Stock	$0.48	$0.08
Earnings Per Share - Diluted:		
Class A Common Stock	$0.53	$0.14
Class B Common Stock	$0.47	$0.08
Weighted-Average Shares Used to Compute Basic Earnings Per Share:		
Class A Common Stock	30,731	30,668

Class B Common Stock	24,690	24,690
Weighted-Average Shares Used to Compute Diluted Earnings Per Share:		
Class A Common Stock	31,200	31,156
Class B Common Stock	24,690	24,690
Cash Dividends Per Share:		
Class A Common Stock	$0.21	$0.21
Class B Common Stock	$0.15	$0.15

(See accompanying notes to condensed consolidated financial statements)

4

Table of Contents

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited

(In thousands)	Three Months Ended September 30, 2016	2015
Net Income (Loss)	$11,349	$(1,087)
Other Comprehensive (Loss) Income		
Net foreign currency translation loss, net of tax of $0 and $0, respectively	(4,095)	(5,975)
Amortization of actuarial losses for retirement plans included in net periodic pension cost, net of tax of $1,126 and $2,447, respectively	2,171	7,823
Other Comprehensive (Loss) Income	(1,924)	1,848
Comprehensive Income	9,425	761
Comprehensive (income) loss attributable to noncontrolling interests	(503)	20
Comprehensive Income Attributable to Shareholders of Crawford & Company	$8,922	$781

(In thousands)	Nine Months Ended September 30, 2016	2015
Net Income	$29,139	$6,372
Other Comprehensive Income (Loss):		
Net foreign currency translation loss, net of tax of $0 and $0, respectively	(648)	(17,233)
Amortization of actuarial losses for retirement plans included in net periodic pension cost, net of tax of $3,339 and $4,518, respectively	6,453	12,624
Other Comprehensive Income (Loss)	5,805	(4,609)
Comprehensive Income	34,944	1,763
Comprehensive loss attributable to noncontrolling interests	47	330
Comprehensive Income Attributable to Shareholders of Crawford & Company	$34,991	$2,093

(See accompanying notes to condensed consolidated financial statements)

5

Table of Contents

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited

(In thousands)	September 30, 2016	* December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 71,663	$ 76,066
Accounts receivable, less allowance for doubtful accounts of $14,174 and $13,133, respectively	166,993	164,596
Unbilled revenues, at estimated billable amounts	112,775	98,659
Income taxes receivable	4,255	4,255
Prepaid expenses and other current assets	25,319	26,601
Total Current Assets	381,005	370,177
Property and Equipment:		
Property and equipment	131,939	140,383
Less accumulated depreciation	(102,649)	(102,331)
Net Property and Equipment	29,290	38,052
Other Assets:		
Goodwill	92,895	95,616
Intangible assets arising from business acquisitions, net	91,812	104,861
Capitalized software costs, net	80,990	79,996
Deferred income tax assets	43,995	47,371
Other noncurrent assets	45,844	47,333
Total Other Assets	355,536	375,177
TOTAL ASSETS	$ 765,831	$ 783,406

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

Table of Contents

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS — CONTINUED
Unaudited

(In thousands, except par value amounts)	September 30, 2016	* December 31, 2015
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities:		
Short-term borrowings	$ 8,007	$ 19,958
Accounts payable	47,634	44,615
Accrued compensation and related costs	71,180	68,843
Self-insured risks	14,020	14,122
Income taxes payable	12,170	4,419
Deferred rent	12,408	13,303
Other accrued liabilities	39,806	44,577
Deferred revenues	42,180	46,552
Current installments of long-term debt and capital leases	1,327	1,959
Total Current Liabilities	248,732	258,348
Noncurrent Liabilities:		
Long-term debt and capital leases, less current installments	205,248	225,365
Deferred revenues	26,231	26,592
Self-insured risks	8,844	9,354
Accrued pension liabilities	110,722	121,732
Other noncurrent liabilities	16,663	17,664
Total Noncurrent Liabilities	367,708	400,707
Shareholders' Investment:		
Class A common stock, $1.00 par value; 50,000 shares authorized; 30,952 and 30,537 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	30,952	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	47,248	41,936
Retained earnings	257,201	239,161
Accumulated other comprehensive loss	(215,842)	(222,631)
Shareholders' Investment Attributable to Shareholders of Crawford & Company	144,249	113,693
Noncontrolling interests	5,142	10,658
Total Shareholders' Investment	149,391	124,351
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	$ 765,831	$ 783,406

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

Table of Contents

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

(In thousands)	Nine Months Ended September 30, 2016	2015
Cash Flows From Operating Activities:		
Net income	$29,139	$6,372
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	30,643	32,219
Stock-based compensation	3,246	2,369
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable, net	(7,628)	14,190
Unbilled revenues, net	(16,118)	(8,604)
Accrued or prepaid income taxes	9,067	9,838
Accounts payable and accrued liabilities	5,410	(31,247)
Deferred revenues	(4,153)	1,064
Accrued retirement costs	(7,128)	(14,952)
Prepaid expenses and other operating activities	7,605	9,890
Net cash provided by operating activities	50,083	21,139
Cash Flows From Investing Activities:		
Acquisitions of property and equipment	(5,782)	(10,296)
Capitalization of computer software costs	(13,653)	(16,182)
Payments for business acquisitions, net of cash acquired	(3,672)	(68,259)
Other investing activities	(95)	—
Net cash used in investing activities	(23,202)	(94,737)
Cash Flows From Financing Activities:		
Cash dividends paid	(10,162)	(10,151)
Payments related to shares received for withholding taxes under stock-based compensation plans	(15)	(2)
Proceeds from shares purchased under employee stock-based compensation plans	1,208	1,196
Decrease in note payable for stock repurchase	(2,206)	—
Repurchases of common stock	—	(137)
Increases in short-term and revolving credit facility borrowings	79,664	126,032
Payments on short-term and revolving credit facility borrowings	(95,855)	(31,645)
Payments on capital lease obligations	(1,119)	(1,586)
Dividends paid to noncontrolling interests	(381)	(186)
Other financing activities	(12)	(4)
Net cash (used in) provided by financing activities	(28,878)	83,517
Effects of exchange rate changes on cash and cash equivalents	(2,406)	(4,046)
(Decrease) increase in cash and cash equivalents	(4,403)	5,873
Cash and cash equivalents at beginning of year	76,066	52,456
Cash and cash equivalents at end of period	$71,663	$58,329

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

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

	Common Stock				Accumulated	Shareholders' Investment Attributable to Shareholders of		
2016	Class A Non-Voting	Class B Voting	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Crawford & Company	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
Net income	—	—	—	10,945	—	10,945	404	11,349
Other comprehensive (loss) income	—	—	—	—	(2,023)	(2,023)	99	(1,924)
Cash dividends paid	—	—	—	(3,400)	—	(3,400)	—	(3,400)
Stock-based compensation	—	—	1,289	—	—	1,289	—	1,289
Acquisition of noncontrolling interests	—	—	209	—	—	209	(209)	—
	151	—	597		—	748	—	748

Common stock activity, net								
Dividends paid to noncontrolling interests	—	—	—	—	—	—	(172)	(172)
Balance at September 30, 2016	$30,952	$24,690	$47,248	$257,201	$(215,842)	$144,249	$5,142	$149,391

9

Table of Contents

CRAWFORD & COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT — CONTINUED

Unaudited
(In thousands)

	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
Balance at January 1, 2015	$30,497	$24,690	$38,617	$301,091	$(221,958)	$172,937	$6,416	$179,353
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
Net loss	—	—	—	(857)	—	(857)	(230)	(1,087)
Other comprehensive income	—	—	—	—	1,638	1,638	210	1,848
Cash dividends paid	—	—	—	(3,394)	—	(3,394)	—	(3,394)
Stock-based compensation	—	—	1,089	—	—	1,089	—	1,089
Common stock activity, net	(359)	—	611	(2,810)	—	(2,558)	—	(2,558)
Dividends paid to noncontrolling interests	—	—	—	—	—	—	(186)	(186)

Balance at September 30, 2015	$30,347	$24,690	$41,813	$294,193	$(226,048)	$164,995	$11,826	$176,821

(See accompanying notes to condensed consolidated financial statements)

10

Table of Contents

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® 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 CRD-A and CRD-B, 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 nine months ended, and the Company's financial position as of, September 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 September 30, 2016 and December 31, 2015, the liabilities of the deferred compensation plan were $9,464,000 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 $16,143,000 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.

Table of Contents

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 September 30, 2016 were $9,352,000 and $11,026,000, 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 $9,322,000 and $10,214,000 as of September 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 September 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 nine months ended September 30, 2016, the Company recognized amortization expense of $841,000 and $2,595,000, 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

Classification of Certain Cash Receipts and Cash Payments in the Statement of Cash Flows

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-15, "Statement of Cash Flows Classification of Certain Cash Receipts and Cash Payments." The update addresses diversity in cash flow reporting issues. The guidance specifically addresses issues concerning debt repayment costs, settlement of zero coupon debt instruments, contingent consideration payments made after a business combination, proceeds from insurance claims and corporate owned life insurance beneficial interests in securitization transactions, and distributions from equity method investees. The guidance also clarifies how the predominant principle should be applied when cash receipts and cash payments have more than one class of cash flows. The update is effective for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the effect this amendment may have on its cash flows.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." This update replaces the incurred loss methodology to record credit losses with a methodology that reflects the expected credit losses for financial assets not accounted for at fair value with gains and losses recognized through income. The amendment is effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the effect this amendment may have on its results of operations, financial condition and cash flows.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Improvements to Employee Share-Based Payment Accounting

In March 2016, the FASB issued 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 annual periods beginning after December 15, 2016, and interim periods thereafter. The Company is currently evaluating the effect this amendment may have on its results of operations, financial condition and cash flows.

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. In 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. The Company currently expects to adopt this new standard using the modified retrospective method that may result in a cumulative effect adjustment as of the date of adoption.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

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 a 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 was 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 effect to its results of operations, financial condition and cash flows.

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 required the Canadian subsidiary to deliver quarterly payments of CAD589,000 to the counterparty and entitled the U.S. parent to receive quarterly payments of U.S. $593,000. The Canadian subsidiary also made interest payments to the counterparty based on 3-month Canada Bankers Acceptances plus a spread, and the U.S. parent received payments based on U.S. 3-month LIBOR. The cross currency basis swap had a scheduled expiration date of September 30, 2025. The Company elected not to 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, were 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 substantially offset one another prior to the settlement defined below. The changes in the fair value of the cross currency basis swap did not exactly offset changes in the value of the intercompany note, as the fair value of this swap was determined based on forward rates while the value of the intercompany note was determined based on end of period spot rates. The net gains and losses for the swap historically were not significant.
During September 2016, the Company entered into a transaction ("settlement") in which the Canadian subsidiary repaid the intercompany note payable to the U.S. parent and the Company terminated the cross currency basis swap. In connection with the settlement in the third quarter of 2016, the Company received proceeds of $4,100,000 in exchange for terminating the cross currency basis swap. For the three months ended September 30, 2016, the Company recognized a net loss of $585,000 due to changes in the fair value of the cross currency basis swap, the value of the intercompany note, and on the settlement. A net loss was recognized on the settlement due to a change in the forward rates used to value the cross currency basis swap which was not substantially offset by the change in the value of the intercompany note based on the spot rate on the day of the settlement.

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 September 30, 2016, the Company estimates that its effective income tax rate for 2016 will be approximately 40% 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 fluctuations in the mix of income earned, lower current year losses in jurisdictions where the losses are unable to be benefited, permanent extension of the U.S. federal research and development credit and changes in enacted tax rates.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

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 nine months ended September 30, 2016 and 2015 included the following components:

(in thousands)	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Service cost	$167	$ (208)	$825	$ 1,224
Interest cost	6,726	8,187	23,298	24,459
Expected return on assets	(8,024)	(10,604)	(28,782)	(31,428)
Amortization of actuarial loss	2,911	3,396	9,729	9,660
Net periodic benefit cost	$1,780	$ 771	$5,070	$ 3,915

For the nine-month period ended September 30, 2016, the Company made contributions of $9,000,000 and $4,564,000 to its U.S. and U.K. defined benefit pension plans, respectively, compared with contributions of $9,000,000 and $4,945,000, 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 $1,400,000 to its U.K. plan during the remainder of 2016. No additional contributions are expected to be made for the U.S. plan during the remainder of 2016.

7. Net Income (Loss) Attributable to Shareholders of Crawford & Company per Common Share

The Company computes earnings per share of its non-voting Class A Common Stock ("CRD-A") and voting Class B Common Stock ("CRD-B") 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 CRD-A shares than on the CRD-B shares, subject to certain limitations. In periods when the dividend is the same for CRD-A and CRD-B or when no dividends are declared or paid to either class, the two-class method generally will yield the same earnings per share for CRD-A and CRD-B. For all three quarters of 2016 and 2015 the Board of Directors declared a higher dividend on CRD-A than on CRD-B.

The computations of basic net income (loss) attributable to shareholders of Crawford & Company per common share were as follows:

	Three months ended				Nine months ended			
	September 30, 2016		September 30, 2015		September 30, 2016		September 30, 2015	
(in thousands, except per share amounts)	CRD-A	CRD-B	CRD-A	CRD-B	CRD-A	CRD-B	CRD-A	CRD-B
Earnings (loss) per share - basic:								
Numerator:								
Allocation of undistributed earnings (loss)	$4,196	$3,350	$(2,360)	$(1,891)	$10,003	$8,037	$(2,198)	$(1,770)
Dividends paid	2,166	1,234	2,160	1,234	6,459	3,703	6,447	3,704
Net income (loss) attributable to common shareholders, basic	$6,362	$4,584	$(200)	$(657)	$16,462	$11,740	$4,249	$1,934
Denominator:								
Weighted-average common shares outstanding, basic	30,922	24,690	30,807	24,690	30,731	24,690	30,668	24,690
Earnings (loss) per share - basic	$0.21	$0.19	$(0.01)	$(0.03)	$0.54	$0.48	$0.14	$0.08