

CRAWFORD & CO
Form 10-Q
August 06, 2012
Table of Contents

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, 2012

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 No

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 No

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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
				(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 No

The number of shares outstanding of each of the Registrant's classes of common stock as of July 31, 2012 was as follows:

Class A Common Stock, \$1.00 par value: 29,671,970

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

CRAWFORD & COMPANY
 Quarterly Report on Form 10-Q
 Quarter Ended June 30, 2012

Table of Contents

	Page
Part I. Financial Information	
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Statements of Income (unaudited) for the three months ended June 30, 2012 and 2011</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income (unaudited) for the six months ended June 30, 2012 and 2011</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (unaudited) for the three-month and six-month periods ended June 30, 2012 and 2011</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets (unaudited) as of June 30, 2012 and December 31, 2011</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2012 and 2011</u>	<u>8</u>
<u>Condensed Consolidated Statements of Shareholders' Investment (unaudited) as of and for the three-month and six-month periods ended June 30, 2012 and 2011</u>	<u>9</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>10</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>18</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>35</u>
<u>Item 4. Controls and Procedures</u>	<u>36</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>37</u>
<u>Item 1A. Risk Factors</u>	<u>37</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>37</u>
<u>Item 5. Other Information</u>	<u>38</u>
<u>Item 6. Exhibits</u>	<u>38</u>

Signatures

39

Index to Exhibits

40

2

Table of Contents

Part 1 — Financial Information

Item 1. Financial Statements

CRAWFORD & COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Unaudited

(In thousands, except per share amounts)	Three Months Ended June 30,	
	2012	2011
Revenues:		
Revenues before reimbursements	\$293,847	\$291,713
Reimbursements	25,169	22,369
Total Revenues	319,016	314,082
Costs and Expenses:		
Costs of services provided, before reimbursements	212,537	210,773
Reimbursements	25,169	22,369
Total costs of services	237,706	233,142
Selling, general, and administrative expenses	59,077	57,163
Corporate interest expense, net of interest income of \$262 and \$192, respectively	2,387	4,118
Special charges	1,571	—
Total Costs and Expenses	300,741	294,423
Income Before Income Taxes	18,275	19,659
Provision for Income Taxes	7,583	6,005
Net Income	10,692	13,654
Less: Net Income Attributable to Noncontrolling Interests	267	185
Net Income Attributable to Shareholders of Crawford & Company	\$10,425	\$13,469
Earnings Per Share - Basic:		
Class A Common Stock	\$0.20	\$0.25
Class B Common Stock	\$0.19	\$0.25
Earnings Per Share -Diluted:		
Class A Common Stock	\$0.19	\$0.25
Class B Common Stock	\$0.18	\$0.25
Weighted-Average Shares Used to Compute Basic Earnings Per Share:		

Edgar Filing: CRAWFORD & CO - Form 10-Q

Class A Common Stock	29,585	28,788
Class B Common Stock	24,696	24,697
Weighted-Average Shares Used to Compute Diluted Earnings Per Share:		
Class A Common Stock	30,246	29,243
Class B Common Stock	24,696	24,697
Cash Dividends Per Share:		
Class A Common Stock	\$0.03	\$0.02
Class B Common Stock	\$0.02	\$0.02
(See accompanying notes to condensed consolidated financial statements)		

3

Table of Contents

CRAWFORD & COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 Unaudited

(In thousands, except per share amounts)	Six Months Ended June 30,	
	2012	2011
Revenues:		
Revenues before reimbursements	\$561,600	\$576,751
Reimbursements	44,762	41,439
Total Revenues	606,362	618,190
Costs and Expenses:		
Costs of services provided, before reimbursements	411,939	417,715
Reimbursements	44,762	41,439
Total costs of services	456,701	459,154
Selling, general, and administrative expenses	114,756	113,159
Corporate interest expense, net of interest income of \$544 and \$411, respectively	4,556	8,254
Special charges	2,461	—
Total Costs and Expenses	578,474	580,567
Income Before Income Taxes	27,888	37,623
Provision for Income Taxes	10,976	12,042
Net Income	16,912	25,581
Less: Net Income (Loss) Attributable to Noncontrolling Interests	422	(35)
Net Income Attributable to Shareholders of Crawford & Company	\$16,490	\$25,616
Earnings Per Share - Basic:		
Class A Common Stock	\$0.31	\$0.48
Class B Common Stock	\$0.29	\$0.48
Earnings Per Share - Diluted:		
Class A Common Stock	\$0.31	\$0.48
Class B Common Stock	\$0.29	\$0.48
Weighted-Average Shares Used to Compute Basic Earnings Per Share:		
Class A Common Stock	29,417	28,587
Class B Common Stock	24,697	24,697

Edgar Filing: CRAWFORD & CO - Form 10-Q

Weighted-Average Shares Used to Compute Diluted Earnings Per Share:

Class A Common Stock	30,030	29,067
Class B Common Stock	24,697	24,697

Cash Dividends Per Share:

Class A Common Stock	\$0.06	\$0.04
Class B Common Stock	\$0.04	\$0.04

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

CRAWFORD & COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 Unaudited

(In thousands)	Three Months Ended June 30,	
	2012	2011
Net Income	\$ 10,692	\$ 13,654
Other Comprehensive Income (Loss):		
Net foreign currency translation gain	2,034	9,158
Interest rate swap agreement loss reclassified into income, net of tax of \$86 and \$86, respectively	140	140
Interest rate swap agreement loss recognized during the period, net of tax of \$0 and (\$164), respectively	—	(267)
Amortization of cost of retirement plans included in net periodic pension cost, net of tax of \$823 and \$893, respectively	1,493	1,727
Other Comprehensive Income	3,667	10,758
Comprehensive Income	14,359	24,412
Less: Comprehensive income attributable to noncontrolling interests	314	200
Comprehensive Income Attributable to Shareholders of Crawford & Company	\$ 14,045	\$ 24,212
(In thousands)	Six Months Ended June 30,	
	2012	2011
Net Income	\$ 16,912	\$ 25,581
Other Comprehensive (Loss) Income:		
Net foreign currency translation (loss) gain	(1,163)	9,610
Interest rate swap agreement loss reclassified into income, net of tax of \$172 and \$176, respectively	280	286
Interest rate swap agreement loss recognized during the period, net of tax of \$0 and (\$189), respectively	—	(308)
Amortization of cost of retirement plans included in net periodic pension cost, net of tax of \$1,646 and \$1,786, respectively	2,987	3,454
Other Comprehensive Income	2,104	13,042

Edgar Filing: CRAWFORD & CO - Form 10-Q

Comprehensive Income	19,016	38,623
Less: Comprehensive income (loss) attributable to noncontrolling interests	316	(453)
Comprehensive Income Attributable to Shareholders of Crawford & Company	\$ 18,700	\$ 39,076

(See accompanying notes to condensed consolidated financial statements)

5

Table of Contents

CRAWFORD & COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 Unaudited

(In thousands)	June 30, 2012	* December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$45,655	\$77,613
Accounts receivable, less allowance for doubtful accounts of \$11,816 and \$10,615, respectively	185,434	161,543
Unbilled revenues, at estimated billable amounts	133,321	107,494
Prepaid expenses and other current assets	24,571	22,836
Total Current Assets	388,981	369,486
Property and Equipment:		
Property and equipment	158,109	156,349
Less accumulated depreciation	(112,125)	(112,465)
Net Property and Equipment	45,984	43,884
Other Assets:		
Goodwill	130,756	131,246
Intangible assets arising from business acquisitions, net	92,733	96,392
Capitalized software costs, net	63,488	60,332
Deferred income tax assets	82,934	84,454
Other noncurrent assets	26,233	25,864
Total Other Assets	396,144	398,288
TOTAL ASSETS	\$831,109	\$811,658

* 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)	June 30, 2012	* December 31, 2011
LIABILITIES AND SHAREHOLDERS' INVESTMENT		
Current Liabilities:		
Short-term borrowings	\$21,305	\$1,794
Accounts payable	48,606	41,806
Accrued compensation and related costs	79,153	96,440
Self-insured risks	16,707	18,817
Income taxes payable	2,672	292
Deferred income taxes	7,532	7,287
Deferred rent	15,150	15,820
Other accrued liabilities	41,295	36,104
Deferred revenues	53,788	53,844
Mandatory contributions due to pension plan	21,700	13,800
Current installments of long-term debt and capital leases	155	410
Total Current Liabilities	308,063	286,414
Noncurrent Liabilities:		
Long-term debt and capital leases, less current installments	209,643	211,983
Deferred revenues	27,214	27,856
Self-insured risks	12,897	10,114
Accrued pension liabilities, less current mandatory contributions	101,606	120,195
Other noncurrent liabilities	16,889	16,808
Total Noncurrent Liabilities	368,249	386,956
Shareholders' Investment:		
Class A common stock, \$1.00 par value; 50,000 shares authorized; 29,568 and 29,086 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	29,568	29,086
Class B common stock, \$1.00 par value; 50,000 shares authorized; 24,690 and 24,697 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	24,690	24,697
Additional paid-in capital	33,899	33,969
Retained earnings	222,901	209,323
Accumulated other comprehensive loss	(161,393)	(163,603)
Shareholders' Investment Attributable to Shareholders of Crawford & Company	149,665	133,472
Noncontrolling interests	5,132	4,816
Total Shareholders' Investment	154,797	138,288
TOTAL LIABILITIES AND SHAREHOLDERS' INVESTMENT	\$831,109	\$811,658

* 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)	Six Months Ended June 30,	
	2012	2011
Cash Flows From Operating Activities:		
Net income	\$ 16,912	\$ 25,581
Reconciliation of net income to net cash used in operating activities:		
Depreciation and amortization	16,246	15,856
Stock-based compensation	1,339	1,483
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable, net	(24,803	) (33,696
Unbilled revenues, net	(26,929	) (7,564
Accrued or prepaid income taxes	2,367	5,604
Accounts payable and accrued liabilities	(2,168	) (17,780
Deferred revenues	(519	) 1,996
Accrued retirement costs	(8,057	) (22,985
Prepaid expenses and other operating activities	(833	) (1,701
Net cash used in operating activities	(26,445	) (33,206
Cash Flows From Investing Activities:		
Acquisitions of property and equipment	(8,302	) (6,175
Proceeds from disposals of property and equipment	47	40
Capitalization of computer software costs	(8,285	) (5,766
Payments for business acquisitions, net of cash acquired	—	(6,874
Net cash used in investing activities	(16,540	) (18,775
Cash Flows From Financing Activities:		
Cash dividends paid	(2,763	) (2,139
Shares used to settle withholding taxes under stock-based compensation plans	(896	) (1,645
Repurchases of common stock	(205) —
Increases in short-term borrowings	42,164	15,268
Payments on short-term borrowings	(21,599	) (14,144
Payments on long-term debt and capital lease obligations	(4,352	) (3,422
Other financing activities	(328	) 20
Net cash provided by (used in) financing activities	12,021	(6,062
Effects of exchange rate changes on cash and cash equivalents	(994	) 1,709
Decrease in cash and cash equivalents	(31,958	) (56,334
Cash and cash equivalents at beginning of year	77,613	93,540
Cash and cash equivalents at end of period	\$ 45,655	\$ 37,206

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

CRAWFORD & COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' INVESTMENT

Unaudited
(In thousands)

2012	Common Stock		Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Shareholders' Investment Accumulated Attributable to Shareholders of Crawford & Company		Noncontrolling Interests	Total Shareholders' Investment
	Class A Non-Voting	Class B Voting							
Balance at January 1, 2012	\$29,086	\$24,697	\$33,969	\$209,323	\$ (163,603)	\$133,472	\$ 4,816	\$ 138,288	
Net income	—	—	—	6,065	—	6,065	155	6,220	
Other comprehensive loss	—	—	—	—	(1,410)	(1,410)	(153)	(1,563)	
Cash dividends paid	—	—	—	(1,380)	—	(1,380)	—	(1,380)	
Stock-based compensation	—	—	404	—	—	404	—	404	
Common stock activity, net	474	—	(1,356)	—	—	(882)	—	(882)	
Balance at March 31, 2012	29,560	24,697	33,017	214,008	(165,013)	136,269	4,818	141,087	
Net income	—	—	—	10,425	—	10,425	267	10,692	
Other comprehensive income	—	—	—	—	3,620	3,620	47	3,667	
Cash dividends paid	—	—	—	(1,383)	—	(1,383)	—	(1,383)	
Stock-based compensation	—	—	935	—	—	935	—	935	
Common stock activity, net	8	(7)	(53)	(149)	—	(201)	—	(201)	
Balance at June 30, 2012	\$29,568	\$24,690	\$33,899	\$222,901	\$ (161,393)	\$149,665	\$ 5,132	\$ 154,797	
2011	Common Stock		Additional	Retained	Other	Shareholders' Investment Accumulated Attributable to		Noncontrolling	Total
Class A	Class B								

Edgar Filing: CRAWFORD & CO - Form 10-Q

	Non-Voting	Voting	Paid-In Capital	Earnings	Comprehensive Loss	Shareholders of Crawford & Company	Interests	Shareholders' Investment
Balance at January 1, 2011	\$28,002	\$24,697	\$32,348	\$168,791	\$ (164,322)	\$89,516	\$ 5,715	\$ 95,231
Net income (loss)	—	—	—	12,147	—	12,147	(220)	11,927
Other comprehensive income (loss)	—	—	—	—	2,717	2,717	(433)	2,284
Cash dividends paid	—	—	—	(1,069)	—	(1,069)	—	(1,069)
Stock-based compensation	—	—	370	—	—	370	—	370
Common stock activity, net	780	—	(2,432)	—	—	(1,652)	—	(1,652)
Balance at March 31, 2011	28,782	24,697	30,286	179,869	(161,605)	102,029	5,062	107,091
Net income (loss)	—	—	—	13,469	—	13,469	185	13,654
Other comprehensive income	—	—	—	—	10,743	10,743	15	10,758
Cash dividends paid	—	—	—	(1,070)	—	(1,070)	—	(1,070)
Stock-based compensation	—	—	1,113	—	—	1,113	—	1,113
Common stock activity, net	13	—	20	—	—	33	—	33
Balance at June 30, 2011	\$28,795	\$24,697	\$31,419	\$192,268	\$ (150,862)	\$126,317	\$ 5,262	\$ 131,579

(See accompanying notes to condensed consolidated financial statements)

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Based in Atlanta, Georgia, Crawford & Company (the "Company") is the world's largest independent provider 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 System of Claims Solutions® 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 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 Class A Common Stock than on the 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 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 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. The financial statements of the Company's international subsidiaries, other than those in Canada and the Caribbean, are included in the Company's condensed consolidated financial statements 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. There have been no material changes to our significant accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the three months and six months ended, and our financial position as of, June 30, 2012 are not necessarily indicative of the results or financial position that may be expected for the year ending December 31, 2012 or for other future periods.

In the opinion of management, all adjustments (consisting of normal recurring accruals and adjustments) considered necessary for a fair presentation have been included. Certain prior period amounts have been reclassified to conform to the current presentation. Significant intercompany transactions have been eliminated in consolidation.

The Condensed Consolidated Balance Sheet information presented herein as of December 31, 2011 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, 2011.

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, 2012 and December 31, 2011, the liabilities of the deferred compensation plan were \$10,487,000 and \$9,835,000, respectively, which represent an obligation of the

Company rather than of the rabbi trust, and the values of the assets held in the related rabbi trust were \$14,697,000 and \$14,446,000, respectively. These liabilities and assets are included in "Other noncurrent liabilities" and "Other noncurrent assets," respectively, on the Company's Condensed Consolidated Balance Sheets.

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2. Adoption of New Accounting Standards

Fair Value Measurement

On May 12, 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS," which amends Accounting Standards Codification ("ASC") 820, "Fair Value Measurement" to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards ("IFRS"). The amendments in this update clarify how fair value should be measured for financial reporting purposes. The update does not require additional assets or liabilities to be measured at fair value or change when fair value measurements should be applied. The amendments were effective for the Company beginning January 1, 2012, and were required to be applied prospectively.

The adoption of ASU 2011-04 did not have any impact on the Company's results of operations, financial condition, or cash flows. See Note 5 for a discussion of our fair value measurements.

Comprehensive Income

On June 16, 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income," which amends ASC 220, "Comprehensive Income," requiring most entities to present items of net income and other comprehensive income either in one continuous statement - referred to as the statement of comprehensive income - or in two separate, but consecutive, statements of net income and comprehensive income. The option to present items of other comprehensive income in the statement of changes in shareholders' equity has been eliminated. The new requirements do not change which components of comprehensive income are recognized in net income or other comprehensive income, or when an item of other comprehensive income must be reclassified to net income. Also, the earnings per share computation does not change and continues to be based on net income. The Company adopted ASU 2011-05 effective January 1, 2012, using two separate statements of net income and comprehensive income.

3. Net Income Attributable to Shareholders of Crawford & Company per Common Share

We compute earnings per share of Class A Common Stock ("CRDA") and Class B Common Stock ("CRDB") using the two-class method which allocates the undistributed earnings for 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 CRDA than on CRDB, 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 each of the first two quarters of 2012, 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, 2012		June 30, 2011		June 30, 2012		June 30, 2011	
(in thousands, except earnings per share)	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB
Earnings per share - basic:								
Numerator:								
Allocation of undistributed earnings	\$4,928	\$4,114	\$6,674	\$5,725	\$7,462	\$6,265	\$12,595	\$10,882
Dividends paid	889	494	576	494	1,775	988	1,151	988
Net income available to common shareholders, basic	5,817	4,608	7,250	6,219	9,237	7,253	13,746	11,870

Edgar Filing: CRAWFORD & CO - Form 10-Q

Denominator:

Weighted-average common shares outstanding, basic	29,585	24,696	28,788	24,697	29,417	24,697	28,587	24,697
Earnings per share - basic	\$0.20	\$0.19	\$0.25	\$0.25	\$0.31	\$0.29	\$0.48	\$0.48

11

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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, 2012		June 30, 2011		June 30, 2012		June 30, 2011	
(in thousands, except earnings per share)	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB	CRDA	CRDB
Earnings per share - diluted:								
Numerator:								
Allocation of undistributed earnings	\$4,977	\$4,065	\$6,722	\$5,677	\$7,532	\$6,195	\$12,692	\$10,785
Dividends paid	889	494	576	494	1,775	988	1,151	988
Net income available to common shareholders, diluted	5,866	4,559	7,298	6,171	9,307	7,183	13,843	11,773
Denominator:								
Number of shares used in basic earnings per share computation	29,585	24,696	28,788	24,697	29,417	24,697	28,587	24,697
Weighted-average effect of dilutive securities	661	—	455	—	613	—	480	—
	30,246	24,696	29,243	24,697	30,030	24,697	29,067	24,697
Earnings per share - diluted	\$0.19	\$0.18	\$0.25	\$0.25	\$0.31	\$0.29	\$0.48	\$0.48

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, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Shares underlying stock options excluded due to the options' respective exercise prices being greater than the average market price during the period	1,144	1,111	1,179	1,388
Performance stock grants excluded because performance conditions had not been met (1)	1,027	1,015	1,027	1,015

(1) Compensation cost is recognized for these performance stock grants based on expected achievement rates, however no consideration is given for these performance stock grants when calculating earnings per share until the performance measurements have actually been achieved. The performance goals for approximately 390,000 of the Company's outstanding performance stock grants as of June 30, 2012 are expected to be achieved by December 31, 2012, provided certain performance conditions are met.

The following table details additional shares issued during the three months and six months ended June 30, 2012 and June 30, 2011. These shares are included in the weighted-average common shares used to compute basic earnings per share for CRDA in the table above.

(in thousands)	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
CRDA issued under non-employee director stock plan	7	5	58	64
CRDA issued under the U.K. ShareSave Scheme	2	8	8	8
CRDA issued upon vesting of performance shares	50	—	467	721

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

In May 2012, the Board of Directors authorized a share repurchase program under which the Company may repurchase 2,000,000 shares of its common stock (either CRDA or CRDB or both) until May 2015. Under the repurchase program, which replaces Crawford's prior program, 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 regulatory guidelines. Through June 30, 2012, we have repurchased 50,000 shares of CRDA and 7,000 shares of CRDB at an average cost of \$3.60 and \$3.83 per share, respectively.

4. Derivative Instruments

The Company attempts to manage a portion of its exposure to the impact of interest rate changes by entering into interest rate swap agreements from time to time. The Company currently has a forward-starting interest rate swap agreement with a notional amount of \$85,000,000, which expires September 30, 2012. At June 30, 2012 and December 31, 2011, the fair value of the Company's interest rate swap was a liability of \$226,000 and \$667,000, respectively. As a result of entering a new credit facility in December 2011, this interest rate swap was discontinued as a cash flow hedge of exposure to changes in interest rates. Accordingly, changes to the fair value of this swap agreement are recorded by the Company as an interest expense adjustment rather than a component of the Company's accumulated other comprehensive loss. Such amount was insignificant for the three months and six months ended June 30, 2012 and 2011. Because it is still probable that the forecasted transactions that were hedged will occur, the amount recorded in accumulated other comprehensive loss as of the hedge discontinuance date related to the interest rate swap agreement will be reclassified into earnings as an increase to interest expense over the remaining life of the interest rate swap agreement as the forecasted transactions occur.

The effective portions of the pretax losses on the Company's interest-rate swap derivative instruments are categorized in the tables below:

(in thousands)	Loss Recognized in		Loss Reclassified from	
	Accumulated Other	Comprehensive Loss ("OCL")	Accumulated OCL into	Income -
Three Months Ended June 30,	2012	2011	2012	2011
Cash Flow Hedging Relationship:				
Interest rate hedge	\$—	\$431	\$—	\$226
Interest Rate Swap Discontinued as a Cash Flow Hedge	—	—	226	—

(in thousands)	Loss Recognized in		Loss Reclassified from	
	Accumulated	OCL on Derivative -	Accumulated OCL into	Income -
Six Months Ended June 30,	2012	2011	2012	2011
Cash Flow Hedging Relationship:				
Interest rate hedge	\$—	\$498	\$—	\$462
Interest Rate Swap Discontinued as a Cash Flow Hedge	—	—	452	—

(1)The losses reclassified from accumulated OCL into income (effective portion) are reported in "Corporate interest expense" in the Company's unaudited Condensed Consolidated Statements of Income.

Edgar Filing: CRAWFORD & CO - Form 10-Q

The balances and changes in accumulated OCL related to the effective portions of the Company's interest rate hedge for the three-month and six-month periods ended June 30, 2012 and 2011 were as follows:

(in thousands)	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Amount in accumulated OCL at beginning of period for effective portion of interest rate hedge, net of tax	\$ (274	) \$ (766	) \$ (414	) \$ (871
Loss reclassified into income, net of tax	140	140	280	286
Loss recognized during period, net of tax	—	(267	) —	(308
Amount in accumulated OCL at end of period for effective portion of interest rate hedge, net of tax	\$ (134	) \$ (893	) \$ (134	) \$ (893

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 by our Canadian subsidiary to the U.S. parent. 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. We have not elected to designate this swap as a hedge of the intercompany note from our Canadian subsidiary. Accordingly, changes in the fair value of this swap are recorded as gains or losses in "Selling, general and administrative expenses" in the Company's unaudited Condensed Consolidated Statements of Income over the term of the swap and are expected to substantially offset changes in the value of the intercompany note. The changes in the fair value of the cross currency basis swap will not totally 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 fair value of the cross currency basis swap was a net asset of \$77,000 at June 30, 2012 and a net liability of \$49,000 at December 31, 2011.

The Company's swap agreements contain provisions providing that if the Company is in default under its credit facility, the Company may also be deemed to be in default under its swap agreements. If there were such a default, the Company could be required to contemporaneously settle some or all of the obligations under the swap agreements at values determined at the time of default. At June 30, 2012, no such default existed and the Company had no assets posted as collateral under its swap agreements.

5. Fair Value Measurements

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

	Total	Fair Value Measurements at June 30, 2012		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Assets:				
Money market funds (1)	\$47	\$47	\$—	\$—
Derivative not designated as hedging instrument:				
Cross currency basis swap (2)	77	—	77	—
Liabilities:				
Derivative not designated as hedging instrument:				
Interest rate swap (3)	226	—	226	—

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

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

(3)

The fair value of the interest rate swap was derived from a discounted cash flow analysis based on the terms of the contract and the forward interest rate curve adjusted for the Company's credit risk. The fair value of the interest rate swap is included in "Other accrued liabilities" on the Company's Condensed Consolidated Balance Sheets, based upon the remaining term of the instrument.

Fair Value Disclosures

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 these instruments.

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

6. Defined Benefit Pension Plans

Net periodic benefit cost related to the Company's defined benefit pension plans for the three months and six months ended June 30, 2012 and 2011 included the following components:

(in thousands)	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Service cost	\$543	\$665	\$1,075	\$1,299
Interest cost	8,729	8,940	17,391	17,768
Expected return on assets	(10,577)	(10,308)	(21,055)	(20,486)
Amortization of transition obligation	11	12	22	23
Amortization of actuarial loss	2,389	2,740	4,767	5,441
Net periodic benefit cost	\$1,095	\$2,049	\$2,200	\$4,045

For the three-month period ended June 30, 2012, the Company made contributions of \$4,556,000 and \$1,682,000, respectively, to its underfunded U.S. and U.K. defined benefit pension plans, compared with contributions of \$0 and \$1,750,000, respectively, for the comparable period in 2011. For the six-month period ended June 30, 2012, the Company made contributions of \$4,556,000 and \$3,357,000, respectively, to its underfunded U.S. and U.K. defined benefit pension plans, compared with contributions of \$20,000,000 and \$3,458,000, respectively, for the comparable period in 2011.

7. 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, 2012, the Company estimates that its effective annual income tax rate for 2012 will be approximately 37% to 39% before considering discrete items. The effective rate has increased during 2012 primarily due to changes in the mix of income.

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

8. Segment Information

Financial information for the three months and six months ended June 30, 2012 and 2011 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		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenues:				
Americas	\$77,575	\$95,732	\$155,099	\$181,049
EMEA/AP	93,820	87,271	175,610	167,046
Broadspire	59,964	57,910	120,353	117,706
Legal Settlement Administration	62,488	50,800	110,538	110,950
Total Segment Revenues before Reimbursements	293,847	291,713	561,600	576,751
Reimbursements	25,169	22,369	44,762	41,439
Total Revenues	\$319,016	\$314,082	\$606,362	\$618,190
Operating Earnings (Loss):				
Americas	\$1,407	\$10,195	\$895	\$13,309
EMEA/AP	11,757	7,627	17,365	14,779
Broadspire	(338)	(3,099)	(201)	(6,259)
Legal Settlement Administration	15,792	14,758	26,475	31,756
Total Segment Operating Earnings	28,618	29,481	44,534	53,585
Deduct:				
Unallocated corporate and shared costs, net	(4,662)	(4,043)	(6,186)	(4,393)
Net corporate interest expense	(2,387)	(4,118)	(4,556)	(8,254)
Stock option expense	(123)	(142)	(245)	(297)
Amortization of customer-relationship intangible assets	(1,600)	(1,519)	(3,198)	(3,018)
Special charges	(1,571)	—	(2,461)	—
Income before Income Taxes	\$18,275	\$19,659	\$27,888	\$37,623

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

Segment operating earnings include 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 results are adjusted to reflect the current allocation process.

Table of Contents

CRAWFORD & COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Revenues by major service line in the U.S. and by area for other regions in the Americas segment and by major service line for the Broadspire segment are shown in the following table. It is not practicable to provide revenues by service line for the EMEA/AP segment. Legal Settlement Administration considers all of its revenues to be derived from one service line.

(in thousands)	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Americas				
U.S. Claims Field Operations	\$26,774	\$30,571	\$53,609	\$58,628
Contractor Connection	6,931	6,029	12,606	11,908
U.S. Technical Services	7,092	8,451	14,262	16,986
U.S. Catastrophe Services	5,461	10,014	9,158	15,625
Subtotal U.S. Property & Casualty	46,258	55,065	89,635	103,147
Canada--all service lines	28,614	36,322	58,905	70,820
Latin America/Caribbean--all service lines	2,703	4,345	6,559	7,082
Total Americas	\$77,575	\$95,732	\$155,099	\$181,049
Broadspire				
Workers Compensation and Liability Claims Management	\$25,010	\$24,362	\$50,117	\$49,799
Medical Management	30,929	29,273	62,205	59,160
Risk Management Information Services	4,025	4,275	8,031	8,747
Total Broadspire	\$59,964	\$57,910	\$120,353	\$117,706

9. 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, 2012, the aggregate committed amount of letters of credit outstanding under the credit facility was \$18,837,000.

In the normal course of the claims administration services business, the Company is sometimes named as a defendant in suits 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, actions for indemnification on the basis of alleged negligence by the Company, its agents, or its employees in rendering service to clients. The majority of these known claims are of the type covered by insurance maintained by the Company. However, the Company is responsible for the deductibles and any 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 employment laws, and from time to time the Company faces claims by its employees and former employees under such laws. Such claims or litigation involving the Company or any of the Company's current or former employees 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.

10. Special Charges

The Company is in the process of outsourcing certain aspects of its U.S. technology infrastructure to third-party providers. Special charges of \$1,571,000 and \$2,461,000 were incurred in the quarter and six months ended June 30, 2012 for severance costs, stay bonuses and certain other expenses in order to effect this transition. At June 30, 2012,

\$1,206,000 of these costs were accrued in "Accrued compensation and related costs" and \$504,000 of these costs were accrued in "Accounts payable" in the accompanying unaudited Condensed Consolidated Balance Sheets. The Company expects to pay these accrued liabilities and to incur an additional \$300,000 of special charges in the third quarter of 2012 related to this transition.

There were no special charges during the three months or six months ended June 30, 2011.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Crawford & Company

We have reviewed the condensed consolidated balance sheet of Crawford & Company as of June 30, 2012, and the related condensed consolidated statements of income, comprehensive income, and shareholders' investment for the three-month and six-month periods ended June 30, 2012 and 2011, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2012 and 2011. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Crawford & Company as of December 31, 2011, and the related consolidated statements of operations, shareholders' investment, noncontrolling interests, and comprehensive income (loss), and cash flows for the year then ended (not presented herein) and in our report dated March 2, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Atlanta, Georgia

August 6, 2012

Table of Contents

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Concerning Forward-Looking Statements

This report contains forward-looking statements within the meaning of that term in the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. Statements contained or incorporated by reference in this report that are not statements of historical fact are forward-looking statements made pursuant to the “safe harbor” provisions. These statements relate to, among other things, reduction of our operating expenses in our Broadspire segment, anticipated contributions to our underfunded defined benefit pension plans, collectability of our billed and unbilled accounts receivable, our continued compliance with the financial and other covenants contained in our financing agreements, and other long-term liquidity requirements. These statements may also relate to our business strategies, goals and expectations concerning our market position, future operations, margins, case and project volumes, profitability, contingencies, and capital resources. The words “anticipate”, “believe”, “could”, “would”, “should”, “estimate”, “expect”, “intend”, “may”, “plan”, “goal”, “predict”, “project”, “will” and similar terms and phrases identify forward-looking statements contained in this report.

Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. Our operations and the forward-looking statements related to our operations involve risks and uncertainties, many of which are outside our control, and any one of which, or a combination of which, could materially affect our financial condition, results of operations and whether the forward-looking statements ultimately prove to be correct. Included among, but not limited to, the risks and uncertainties we face are:

- continued lower than historical volumes of cases referred to us for many of our service lines,
- changes in global economic conditions,
- changes in interest rates,
- changes in foreign currency exchange rates,
- changes in regulations and practices of various governmental authorities,
- changes in our competitive environment,
- changes in the financial condition of our clients,
- the performance of sublessors under certain subleases related to our leased properties,
- regulatory changes related to funding of defined benefit pension plans,
- the fact that our U.S. and U.K. defined benefit pension plans are significantly underfunded and our future funding obligations thereunder,
- changes in the degree to which property and casualty insurance carriers outsource their claims handling functions,
- continued high levels of unemployment and associated reduced workplace injury rates in the U.S.,
- our ability to complete any transaction involving the acquisition or disposition of assets on terms and at times acceptable to us,
- our ability to identify new revenue sources not tied to the insurance underwriting cycle,
- our ability to develop or acquire information technology resources to support and grow our business,
- our ability to attract and retain qualified personnel,
- our ability to renew existing major contracts with clients on satisfactory terms,
- our ability to collect amounts recoverable from our clients and others,
- continued availability of funding under our financing agreements,
- general risks associated with doing business outside the U.S.,
- our ability to comply with the covenants in our financing or other agreements,

possible legislation or changes in market conditions that may curtail or limit growth in product liability and securities class actions,

changes in the frequency or severity of man-made or natural disasters,

successful and timely transition of certain aspects of our U.S. technology infrastructure to third-party providers,

our ability to prevent cybersecurity breaches and cyber incidents,

our failure to achieve targeted integration goals with the implementation of RiskTech, and

impairments of goodwill or our other indefinite-lived intangible assets.

As a result, undue reliance should not be placed on any forward-looking statements.

Actual results and trends in the future may differ materially from those suggested or implied by the forward-looking statements. Forward-looking statements speak only as of the date they are made and we undertake no obligation to publicly update any of these forward-looking statements in light of new information or future events.

Table of Contents

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with 1) our unaudited condensed consolidated financial statements and accompanying notes thereto for the three months and six months ended June 30, 2012 and 2011 and as of June 30, 2012 and December 31, 2011 contained in Item 1 of this Quarterly Report on Form 10-Q, and 2) our Annual Report on Form 10-K for the year ended December 31, 2011. As described in Note 1, "Basis of Presentation," the financial statements of the Company's international subsidiaries, other than those in Canada and the Caribbean, are included in our consolidated financial statements on a two-month delayed basis (fiscal year-end of October 31) as permitted by U.S. generally accepted accounting principles ("GAAP") in order to provide sufficient time for accumulation of their results.

Business Overview

Based in Atlanta, Georgia, Crawford & Company (www.crawfordandcompany.com) is the world's largest independent provider 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 System of Claims Solutions® 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 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 Class A Common Stock than on the 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 approved by the holders of 75% of the Class A Common Stock, voting as a class.

As discussed in more detail in subsequent sections of this MD&A, we have four operating segments: Americas, EMEA/AP, Broadspire, and Legal Settlement Administration. Our four operating segments represent components of our Company for which separate financial information is available, which is evaluated regularly by our chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing operating performance. Americas primarily serves the property and casualty insurance company markets in the U.S., Canada, Latin America, and the Caribbean. EMEA/AP serves the property and casualty insurance company and self-insured markets in Europe, including the United Kingdom ("U.K."), the Middle East, Africa, and Asia-Pacific, including Australia and New Zealand. Broadspire serves the self-insurance marketplace, primarily in the U.S.. Legal Settlement Administration serves the securities, bankruptcy, and other legal settlements markets, primarily in the U.S.

Insurance companies, which represent the major source of our global revenues, customarily manage their own claims administration function but often rely on third parties for certain services which we provide, primarily field investigation and the evaluation of property and casualty insurance claims. We also conduct inspections of building component products related to warranty and product performance claims.

Self-insured entities typically rely on us for a broader range of services. In addition to field investigation and evaluation of their claims, we may also provide initial loss reporting services for their claimants, loss mitigation services such as medical bill review, medical case management and vocational rehabilitation, risk management information services, and administration of trust funds established to pay their claims.

We also perform legal settlement administration services related to securities, product liability, and other class action settlements and bankruptcies, including identifying and qualifying class members, determining and dispensing settlement payments, and administering settlement funds. Such services are generally referred to by us as class action services.

The claims management services market, both in the U.S. and internationally, is highly competitive and comprised of a large number of companies of varying size and that offer a varied scope of services. The demand from insurance companies and self-insured entities for services provided by independent claims service firms like us is largely dependent on industry-wide claims volumes, which are affected by, among other things, the insurance underwriting cycle, weather-related events, general economic activity, overall employment levels, and associated workplace injury rates. We are also impacted by decisions insurance companies and other clients may make with respect to the level of claims outsourced to independent claim service firms as opposed to those handled by their own in-house claims

adjusters or contracted to other third party administrators, whether or not associated with insurance companies. Accordingly, we are limited in our ability to predict case volumes that may be referred to us in the future. In addition, our ability to retain clients and maintain and increase case referrals is also dependent in part on our ability to continue to provide high-quality, competitively priced services and effective sales efforts.

Table of Contents

We generally earn our revenues on an individual fee-per-claim basis for claims management services we provide to property and casualty insurance companies and self-insured entities. Accordingly, the volume of claim referrals to us is a key driver of our revenues. Generally, fees are earned on claims in the period the claim is assigned to us, although sometimes a portion or substantially all of the revenues generated by a specific claim assignment will be earned in subsequent periods. We cannot predict the future trend of case volumes for a number of reasons, including the frequency and severity of weather-related cases and the occurrence of natural and man-made disasters, which are a significant source of cases for us and are generally not subject to accurate forecasting.

In the insurance industry, the underwriting cycle is often said to be in either a “soft” or “hard” market. A soft market generally results when insurance companies focus more on increasing their premium income and focus less on controlling underwriting risks. A soft market often occurs in conjunction with strong financial markets or in a period with a lack of catastrophe losses. Insurance companies often attempt to derive a significant portion of their earnings from their investment portfolios, and their focus may turn to collecting more premium income to invest under the assumption that increased investment income and gains will offset higher claim costs that usually result from relaxed underwriting standards. Due to competition in the industry during periods in which a soft market exists, insurance companies usually concentrate on growing their premium base by increasing the number of policies in-force instead of raising individual policy premiums. When the insurance underwriting market is soft, insurance companies are generally more aggressive in the risks they underwrite, and insurance premiums and policy deductibles typically decline. This usually results in an increase in industry-wide claim referrals which generally will increase claim referrals to us provided that we are able to maintain our existing market share. However, if a soft market coincides with a period of low catastrophic claims activity, industry-wide claim volumes may not increase.

A transition from a soft to a hard market is usually caused by one or two key factors, or sometimes a combination of both: weak financial markets or unacceptable losses from policyholders. When investments held by insurance companies begin to perform poorly, insurance companies typically turn their focus to attempting to better control underwriting risks and claim costs. However, even if financial markets perform well, the relaxed underwriting standards in a soft market can lead to unacceptable increases in the frequency and cost of claims, especially in geographic areas that are prone to frequent weather-related catastrophes. During a hard insurance underwriting market, insurance companies generally become more selective in the risks they underwrite, and insurance premiums and policy deductibles typically increase. This usually results in a reduction in industry-wide claim volumes, which generally reduces claim referrals to us unless we are able to offset the decline in claim referrals with growth in our market share. Although the insurance industry underwriting cycle has been characterized in prior years as soft, the property-casualty underwriting cycle remains volatile and is transitioning to a hard market. Because the underwriting cycle can change suddenly due to unforeseen events in the financial markets and catastrophic claims activity, we cannot predict what impact the current soft market may have on us in the future or the timing of when the market may harden in the future.

The legal settlement administration market is also highly competitive but comprised of a smaller number of specialized entities. The demand for legal settlement administration services is generally not directly tied to or affected by the insurance underwriting cycle. The demand for these services is largely dependent on the volume of securities and product liability class action settlements, the volume of Chapter 11 bankruptcy filings and the resulting settlements, and general economic conditions. Our revenues from legal settlement administration services are generally project-based and we earn these revenues as we perform individual tasks and deliver the outputs as outlined in each project.

Table of Contents

Results of Operations

Executive Summary

Consolidated revenues before reimbursements increased 0.7% (increase of 1.7% in constant dollars) for the three months ended June 30, 2012 and decreased 2.6% (decrease of 2.0% in constant dollars) for the six months ended June 30, 2012, compared with the same periods of 2011. The increase in revenues for the quarter was primarily due to increases in revenues in our Legal Settlement Administration, EMEA/AP, and Broadspire segments, offsetting a decrease in revenues in our Americas segment. The decrease in revenues in the six-month period was primarily in our Americas segment, partially offset by increases in revenues in our EMEA/AP and Broadspire segments.

Excluding the impact of foreign currency translation, revenues before reimbursements by segment and in total were as follows:

(in thousands, except percentages)	Three Months Ended			Six Months Ended		
	June 30, 2012	June 30, 2011	Variance	June 30, 2012	June 30, 2011	Variance
Americas	\$ 79,145	\$ 95,732	(17.3)%	\$ 157,440	\$ 181,049	(13.0)%
EMEA/AP	95,191	87,271	9.1 %	176,770	167,046	5.8 %
Broadspire	59,964	57,910	3.5 %	120,353	117,706	2.2 %
Legal Settlement Administration	62,488	50,800	23.0 %	110,538	110,950	(0.4)%
Total Revenues before Reimbursements on a Constant Dollar Basis	\$ 296,788	\$ 291,713	1.7 %	\$ 565,101	\$ 576,751	(2.0)%

Consolidated net income for the three months and six months ended June 30, 2012 included a pretax charge of \$1.6 million and \$2.5 million, respectively, for severance costs, stay bonuses and certain other expenses related to a project to outsource certain aspects of our U.S. technology infrastructure to third-party providers. This project is expected to continue through the 2012 third quarter. There were no special charges during the three months or six months ended June 30, 2011.

Selling, General, and Administrative (“SG&A”) expenses were 3.3% and 1.4% higher in the quarter and six months ended June 30, 2012, respectively, compared with the same periods of 2011. These increases were primarily due to higher professional indemnity self-insurance expense, compensation costs, and professional fees.

Operating Earnings (Loss) of our Operating Segments

We believe that a discussion and analysis of the operating earnings (loss) of our four operating segments is helpful in understanding the results of our operations. Operating earnings is the primary financial performance measure used by our senior management and CODM to evaluate the financial performance of our operating segments and make resource allocation decisions. Unlike net income, our segment operating earnings measure is not a standard performance measure found in GAAP. However, since it is our segment measure of profitability presented in conformity with the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) Topic 280 “Segment Reporting,” it is not considered a non-GAAP measure requiring reconciliation pursuant to Securities and Exchange Commission (“SEC”) guidance contained in Regulation G and Item 10(e) of Regulation S-K. We believe this measure is useful to others in that it allows them to evaluate segment operating performance using the same criteria our management and CODM use. Operating earnings represent segment earnings (loss) before certain unallocated corporate and shared costs and credits, net corporate interest expense, stock option expense, amortization of customer-relationship intangible assets, special charges, income taxes, and net income or loss attributable to noncontrolling interests.

Income tax expense, net corporate interest expense, amortization of customer-relationship intangible assets, and stock option expense are recurring components of our net income, but they are not considered part of our segment operating earnings (loss) because they are managed on a corporate-wide basis. Income tax expense is calculated on a consolidated basis based on statutory rates in effect in the various jurisdictions in which we provide services, and varies significantly by jurisdiction. Net corporate interest expense results from capital structure decisions made by senior management and affecting the Company as a whole. Amortization expense is a non-cash expense for customer-relationship intangible assets resulting from business combinations. Stock option expense represents the non-cash costs generally related to stock options and employee stock purchase plan expenses which are not allocated

to our operating segments. None of these costs relate directly to the performance of our services or operating activities and, therefore, are excluded from segment operating earnings in order to better assess the results of each segment's operating activities on a consistent basis.

Special charges may arise from events (such as expenses related to restructurings, losses on subleases, etc.) that are not allocated to any particular segment since they historically have not regularly impacted our performance and are not expected to impact our future performance on a regular basis.

Table of Contents

Unallocated corporate and shared costs and credits represent expenses and credits related to our chief executive officer and Board of Directors, certain provisions for bad debt allowances or subsequent recoveries such as those related to bankrupt clients, defined benefit pension costs or credits for our frozen U.S. pension plan, and certain self-insurance costs and recoveries that are not allocated to our individual operating segments.

Additional discussion and analysis of our income tax expense, net corporate interest expense, amortization of customer-relationship intangible assets, stock option expense, unallocated corporate and shared costs, and any other gains and expenses follows the discussion and analysis of the results of operations of our four operating segments.

Segment Revenues

In the normal course of business, our operating segments incur certain out-of-pocket expenses that are reimbursed by our clients. Under GAAP, these out-of-pocket expenses and associated reimbursements are required to be included when reporting revenues and expenses in our consolidated results of operations. In the following discussion and analysis of segment results of operations, we do not include a gross-up of segment revenues and expenses for these pass-through reimbursed expenses. The amounts of reimbursed expenses and related revenues offset each other in our results of operations with no impact to our net income or operating earnings (loss). A reconciliation of revenues before reimbursements to consolidated revenues determined in accordance with GAAP is self-evident from the face of the accompanying unaudited condensed consolidated statements of income. Unless noted in the following discussion and analysis, revenue amounts exclude reimbursements for out-of-pocket expenses.

Segment Expenses

Our discussion and analysis of segment operating expenses is comprised of two components. “Direct Compensation and Fringe Benefits” includes all compensation, payroll taxes, and benefits provided to our employees which, as a service company, represents our most significant and variable operating expense. “Expenses Other Than Direct Compensation and Fringe Benefits” includes outsourced services, office rent and occupancy costs, office operating expenses, cost of risk, amortization and depreciation expense other than amortization of customer-relationship intangible assets, and allocated corporate and shared costs. These costs are more fixed in nature as compared with direct compensation and fringe benefits. Expense amounts in the following discussion and analysis exclude reimbursed out-of-pocket expenses.

Allocated corporate and shared costs are allocated to our four operating segments based primarily on usage. These allocated costs are included in the determination of segment operating earnings. If we change our allocation methods or change the types of costs that are allocated to our four operating segments, prior period results are adjusted to reflect the current allocation process.

Table of Contents

Operating results for our Americas, EMEA/AP, Broadspire, and Legal Settlement Administration segments reconciled to pretax income and net income attributable to shareholders of Crawford & Company were as follows:

(in thousands, except percentages)	Three months ended		Six months ended		
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011	
Revenues:					
Americas	\$77,575	\$95,732	\$155,099	\$181,049	
EMEA/AP	93,820	87,271	175,610	167,046	
Broadspire	59,964	57,910	120,353	117,706	
Legal Settlement Administration	62,488	50,800	110,538	110,950	
Total revenues, before reimbursements	293,847	291,713	561,600	576,751	
Reimbursements	25,169	22,369	44,762	41,439	
Total Revenues	\$319,016	\$314,082	\$606,362	\$618,190	
Direct Compensation & Fringe Benefits:					
Americas	\$49,951	\$57,844	\$101,964	\$113,850	
% of related revenues before reimbursements	64.4	% 60.4	% 65.7	% 62.9	%
EMEA/AP	56,536	57,491	109,071	110,108	
% of related revenues before reimbursements	60.3	% 65.9	% 62.1	% 65.9	%
Broadspire	33,102	34,396	66,691	69,110	
% of related revenues before reimbursements	55.2	% 59.4	% 55.4	% 58.7	%
Legal Settlement Administration	21,744	19,017	42,024	38,661	
% of related revenues before reimbursements	34.8	% 37.4	% 38.0	% 34.8	%
Total	\$161,333	\$168,748	\$319,750	\$331,729	
% of Revenues before reimbursements	54.9	% 57.8	% 56.9	% 57.5	%
Expenses Other than Direct Compensation & Fringe Benefits:					
Americas	\$26,217	\$27,693	\$52,240	\$53,890	
% of related revenues before reimbursements	33.8	% 29.0	% 33.7	% 29.7	%
EMEA/AP	25,527	22,153	49,174	42,159	
% of related revenues before reimbursements	27.2	% 25.4	% 28.0	% 25.3	%
Broadspire	27,200	26,613	53,863	54,855	
% of related revenues before reimbursements	45.4	% 46.0	% 44.8	% 46.6	%
Legal Settlement Administration	24,952	17,025	42,039	40,533	
% of related revenues before reimbursements	39.9	% 33.5	% 38.0	% 36.6	%
Total before reimbursements	103,896	93,484	197,316	191,437	
% of Revenues before reimbursements	35.4	% 32.0	% 35.1	% 33.2	%
Reimbursements	25,169	22,369	44,762	41,439	
Total	\$129,065	\$115,853	\$242,078	\$232,876	
% of Revenues	40.5	% 36.9	% 39.9	% 37.7	%
Operating Earnings (Loss):					
Americas	\$1,407	\$10,195	\$895	\$13,309	
% of related revenues before reimbursements	1.8	% 10.6	% 0.6	% 7.4	%
EMEA/AP	11,757	7,627	17,365	14,779	
% of related revenues before reimbursements	12.5	% 8.7	% 9.9	% 8.8	%
Broadspire	(338)	(3,099)	(201)	(6,259))

Edgar Filing: CRAWFORD & CO - Form 10-Q

% of related revenues before reimbursements	(0.6	)%	(5.4	)%	(0.2	)%	(5.3)%
Legal Settlement Administration	15,792		14,758		26,475		31,756	
% of related revenues before reimbursements	25.3	%	29.1	%	24.0	%	28.6	%
Deduct:								
Unallocated corporate and shared costs and credits, net	(4,662	)	(4,043	)	(6,186	)	(4,393)
Net corporate interest expense	(2,387	)	(4,118	)	(4,556	)	(8,254)
Stock option expense	(123	)	(142	)	(245	)	(297)
Amortization of customer-relationship intangible assets	(1,600	)	(1,519	)	(3,198	)	(3,018)
Special charges	(1,571	)	—		(2,461)	—	
Income before income taxes	18,275		19,659		27,888		37,623	
Provision for income taxes	(7,583	)	(6,005	)	(10,976	)	(12,042)
Net Income	10,692		13,654		16,912		25,581	
Less: Net income (loss) attributable to noncontrolling interests	267		185		422		(35)
Net income attributable to shareholders of Crawford & Company	\$10,425		\$13,469		\$16,490		\$25,616	

Table of Contents

AMERICAS

Operating earnings for our Americas segment decreased from \$10.2 million, or 10.6% of revenues before reimbursements, in the second quarter of 2011, to \$1.4 million, or 1.8% of revenues before reimbursements, in the second quarter of 2012. For the six months ended June 30, segment operating earnings decreased from \$13.3 million, or 7.4% of revenues before reimbursements, in 2011 to \$0.9 million, or 0.6% of revenues before reimbursements, in 2012. The decline in Americas operating earnings was primarily due to a lack of weather-related claims, in the U.S. and Canada.

Revenues before Reimbursements

Americas revenues are primarily generated from the property and casualty insurance company markets in the U.S., Canada, Latin America and the Caribbean, with additional revenues generated from our Contractor Connection direct repair network. Americas revenues before reimbursements by major service line in the U.S. and by area for other regions for the three months and six months ended June 30, 2012 and 2011 were as follows:

(in thousands, except percentages)	Three months ended			Six months ended		
	June 30, 2012	June 30, 2011	Variance	June 30, 2012	June 30, 2011	Variance
U.S. Claims Field Operations	\$26,774	\$30,571	(12.4)%	\$53,609	\$58,628	(8.6)%
Contractor Connection	6,931	6,029	15.0 %	12,606	11,908	5.9 %
U.S. Technical Services	7,092	8,451	(16.1)%	14,262	16,986	(16.0)%
U.S. Catastrophe Services	5,461	10,014	(45.5)%	9,158	15,625	(41.4)%
Subtotal U.S. Property & Casualty	46,258	55,065	(16.0)%	89,635	103,147	(13.1)%
Canada--all service lines	28,614	36,322	(21.2)%	58,905	70,820	(16.8)%
Latin America/Caribbean--all service lines	2,703	4,345	(37.8)%	6,559	7,082	(7.4)%
Total Revenues before Reimbursements	\$77,575	\$95,732	(19.0)%	\$155,099	\$181,049	(14.3)%

Revenues were negatively impacted by segment unit volume, measured principally by cases received, which decreased by 14.0% and 12.4% for the quarter and six months, respectively, compared with the same periods in 2011. For the three months and six months ended June 30, 2012 compared with the same periods during 2011, the U.S. dollar strengthened against most foreign currencies in Canada, Latin America and the Caribbean, which also decreased revenues before reimbursements by 1.6% and 1.3%, respectively. In addition to the stronger U.S. dollar and the decreases in segment unit volume, there was an overall slightly unfavorable change in the mix of services provided and in the rates charged for those services, which decreased revenues by approximately 3.4% and 0.6%, in the three months and six months ended June 30, 2012, respectively.

The overall decreases in the second quarter and first six months of 2012 in U.S. Claims Field Operations and U.S. Technical Services were primarily due to a lack of weather-related events. The increases in Contractor Connection revenues in the second quarter and first six months of 2012 were due to the ongoing expansion of our contractor network and to the continued trend of insurance carriers moving high-frequency, low-severity property cases directly to repair networks. U.S. Catastrophe Services revenues decreased due primarily to a lack of weather-related events and a decline in revenues from two special projects which began in 2011. The two special projects involved U.S. catastrophe adjusters working weather-related claims in Australia and assistance provided to our Legal Settlement Administration segment in connection with a special project.

The overall revenue decreases in Canada for the second quarter and first six months of 2012 were primarily due to a decrease in the number of cases received resulting from the lack of weather-related events, carrier decisions to outsource fewer claims, a stronger U.S. dollar, and regulatory reforms to Ontario's automobile insurance legislation which substantially reduced both frequency and severity of accident benefit claims. Revenues in local currency decreased approximately 17.3% and 14.0% for the second quarter and first six months of 2012, respectively, compared with the same periods in the prior year. The mix of cases received also negatively impacted revenues during the 2012 quarter and six month period. The change in mix was the result of a decline in weather-related claims.

Revenues in Latin America and the Caribbean decreased approximately 34.8% and 2.1% in local currency in the second quarter and first six months of 2012, respectively, compared with the same periods in 2011. The decreases were primarily due to the decision by several clients in Brazil to keep their claims in-house rather than outsourcing them to us and competitive pricing pressure.

25

Table of Contents

Reimbursed Expenses included in Total Revenues

Reimbursements for out-of-pocket expenses included in total revenues for our Americas segment were \$3.7 million for the three months ended June 30, 2012 and \$3.8 million for the three months ended June 30, 2011. Reimbursements for the six-month periods increased to \$8.1 million for the six months ended June 30, 2012, compared with \$7.6 million for the six months ended June 30, 2011. The six-month period increase was due primarily to increased reimbursed professional fees incurred in Canada as part of a court-appointed assignment to a special project.

Case Volume Analysis

Americas unit volumes by underlying case category, as measured by cases received, for the three months and six months ended June 30, 2012 and 2011 were as follows:

(whole numbers, except percentages)	Three months ended			Six months ended		
	June 30, 2012	June 30, 2011	Variance	June 30, 2012	June 30, 2011	Variance
U.S. Claims Field Operations	50,650	66,385	(23.7)%	99,744	119,709	(16.7)%
Contractor Connection	40,823	33,795	20.8 %	72,769	70,834	2.7 %
U.S. Technical Services	1,769	2,109	(16.1)%	3,687	4,108	(10.2)%
U.S. Catastrophe Services	7,514	15,074	(50.2)%	12,986	18,818	(31.0)%
Subtotal U.S. Property & Casualty	100,756	117,363	(14.2)%	189,186	213,469	(11.4)%
Canada--all service lines	26,754	36,263	(26.2)%	53,769	69,171	(22.3)%
Latin America/Caribbean--all service lines	16,735	14,017	19.4 %	29,714	28,584	4.0 %
Total Americas Cases Received	144,245	167,643	(14.0)%	272,669	311,224	(12.4)%

The 2012 decreases in U.S. Claims Field Operations, U.S. Technical Services, U.S. Catastrophe Services, and Canada cases for both the three-month and six-month periods were primarily due to lower industry-wide claims volumes, primarily due to a lack of weather-related events, which resulted in fewer cases referred to us from our clients. The 2012 increases in Contractor Connection cases were due to the ongoing expansion of our direct repair network. The 2012 increases in cases in Latin America and the Caribbean was due primarily to growth in high-frequency, low-severity claims from a nonrecurring special project.

Direct Compensation and Fringe Benefits

The most significant expense in our Americas segment is the compensation of employees, including related payroll taxes and fringe benefits. Americas direct compensation and fringe benefits expense, as a percent of segment revenues before reimbursements, increased to 64.4% in the second quarter of 2012 compared with 60.4% in the comparable 2011 quarter. For the six-month period ended June 30, 2012, Americas direct compensation and fringe benefits expense, as a percent of segment revenues before reimbursements, was 65.7%, increasing from 62.9% in the comparable 2011 period.

These percentage increases were primarily due to lower utilization of our employees in the first six months of 2012 compared with the related 2011 period as a result of the decrease in weather-related claims activity. The dollar amount of these expenses decreased in the 2012 three-month period to \$50.0 million from \$57.8 million in the comparable 2011 period, and for the 2012 six-month period decreased to \$102.0 million from \$113.9 million in the comparable 2011 period. Approximately \$1.1 million and \$1.6 million of the decreases in direct compensation and fringe benefits for the three months and six months ended June 30, 2012, respectively, compared with the same respective periods in 2011, were due to changes in exchange rates. There was an average of 2,669 full-time equivalent employees (including 102 catastrophe adjusters) in this segment during the first six months of 2012, compared with an average of 2,821 employees (including 134 catastrophe adjusters) during the comparable 2011 period.

Americas salaries and wages totaled \$42.2 million and \$49.3 million for the three months ended June 30, 2012 and 2011, respectively. For the first six months of 2012 and 2011, Americas salaries and wages totaled \$84.8 million and \$95.5 million, respectively. In addition to the impact of exchange rates, the decreases in salaries and wages in the three months and six months ended June 30, 2012 compared with the same periods in 2011 were a result of a reduction in the number of employees and the decreased use of catastrophe adjusters due to reduced weather-related claims activity in 2012. Payroll taxes and fringe benefits for Americas totaled \$7.8 million and \$8.5 million in the

second quarter of 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, payroll taxes and fringe benefits for Americas totaled \$17.2 million and \$18.4 million, respectively. The overall decrease in payroll taxes and fringe benefits aligned with the decreased salaries and wages.

Table of Contents**Expenses Other than Reimbursements, Direct Compensation and Fringe Benefits**

Americas expenses other than reimbursements, direct compensation and related payroll taxes and fringe benefits were \$26.2 million, or 33.8% of segment revenues before reimbursements, for the quarter ended June 30, 2012, compared with \$27.7 million, or 29.0% of segment revenues before reimbursements, for the comparable quarter of 2011. For the six-month period ended June 30, 2012, these expenses were \$52.2 million, or 33.7% of segment revenues before reimbursements, compared with \$53.9 million, or 29.7% of segment revenues before reimbursements, in the comparable 2011 period. Approximately \$0.6 million and \$0.8 million of the decreases in expenses other than reimbursements, direct compensation and fringe benefits for the three months and six months ended June 30, 2012, respectively, compared with the same respective periods in 2011, were due to changes in exchange rates, with the remainder of the decreases primarily due to the decreased use of outside contractors and lower travel costs resulting from the decline in weather-related activity.

EMEA/AP

Operating earnings in our EMEA/AP segment increased to \$11.8 million, or 12.5% of revenues before reimbursements, for the three months ended June 30, 2012 compared with 2011 second quarter operating earnings of \$7.6 million, or 8.7% of revenues before reimbursements. Operating earnings for the six months ended June 30, 2012 increased to \$17.4 million, or 9.9% of revenues before reimbursements, from \$14.8 million, or 8.8% of revenues before reimbursements, in the comparable period of 2011. The increase in EMEA/AP operating earnings was primarily due to higher claim handling fees in 2012 resulting from the 2011 Thailand flooding event and other weather-related activity in Australia, partially offset by declines in weather-related activity in the U.K.

Revenues before Reimbursements

EMEA/AP revenues are primarily derived from the property and casualty insurance company market, with additional revenues from the self-insured market. Revenues before reimbursements by major region for the three months and six months ended June 30, 2012 and 2011 were as follows:

(in thousands, except percentages)	Three months ended			Six months ended		
	June 30, 2012	June 30, 2011	Variance	June 30, 2012	June 30, 2011	Variance
U.K.	\$35,527	\$39,848	(10.8)%	\$68,707	\$76,587	(10.3)%
Continental Europe, Middle East, Africa ("CEMEA")	25,520	24,185	5.5 %	49,046	46,967	4.4 %
Asia-Pacific	32,773	23,238	41.0 %	57,857	43,492	33.0 %
Total EMEA/AP Revenues before Reimbursements	\$93,820	\$87,271	7.5 %	\$175,610	\$167,046	5.1 %

The overall increases in revenues for the second quarter and first six months of 2012 were due to increases in CEMEA and Asia-Pacific, partially offset by decreases resulting from a decrease in case referrals in the U.K. U.K. revenue declined due to a reduction in weather-related activity compared with the prior year periods. The increase in revenue in CEMEA is primarily due to the acquisition of Studio Bolton & Associati S.r.l. ("Studio Bolton") in Italy in the 2011 second quarter and growth in high-frequency, low-severity claims in Germany, Spain and Scandinavia resulting from market share gains and a new volume claims product. The higher revenue in Asia-Pacific is associated with fees for the ongoing handling of claims resulting from the 2011 Thailand flooding event and weather-related activity in Australia. We expect a high level of activity in Thailand for the remainder of 2012 and into 2013, although no assurances of timing or amount of revenues from this event can be provided. For the three months and six months ended June 30, 2012 compared with the same periods during 2011, the U.S. dollar was stronger against most other major EMEA/AP foreign currencies, decreasing revenues before reimbursements by 1.6% and 0.7%, respectively. As provided below, overall case volumes declined 1.5% and 9.3% for the three months and six months ended June 30, 2012 compared with the same periods of 2011. Positive changes in product mix and in the rates charged for those services of approximately 10.6% and 15.1% for the three and six month periods, respectively, compared with the same periods in 2011, primarily due to the Thailand flood claims, more than offset the decline in case volumes.

Reimbursed Expenses included in Total Revenues

Reimbursements for out-of-pocket expenses included in total revenues for our EMEA/AP segment increased to \$11.8 million and \$20.8 million for the three months and six months ended June 30, 2012, from \$10.5 million and \$17.3 million in the comparable 2011 periods. The increases were primarily due to increased reimbursed expenses from the increased weather-related activity in Asia-Pacific.

Table of Contents

Case Volume Analysis

EMEA/AP unit volumes by region, measured by cases received, for the three months and six months ended June 30, 2012 and 2011 were as follows:

(whole numbers, except percentages)	Three months ended			Six months ended		
	June 30, 2012	June 30, 2011	Variance	June 30, 2012	June 30, 2011	Variance
U.K.	29,033	41,011	(29.2)%	62,075	96,894	(35.9)%
CEMEA	51,044	40,232	26.9 %	92,546	81,727	13.2 %
Asia-Pacific	39,550	40,253	(1.7)%	80,251	80,436	(0.2)%
Total EMEA/AP Cases Received	119,627	121,496	(1.5)%	234,872	259,057	(9.3)%

The decreases in cases received in the U.K. in the second quarter and six months ended June 30, 2012 compared with the same periods in 2011 were due to a decline in weather-related case activity.

The 2012 increase in CEMEA cases resulted primarily from growth in our claims management business in Belgium, Germany, and Scandinavia as well as the acquisition of Studio Bolton in Italy.

The decrease in Asia-Pacific cases was due to a decline in new weather-related cases in Australia and Thailand and fewer high-frequency, low-severity claims in Singapore, partially offset by an increase in China. Many of the flood-related cases in Thailand were received in prior periods, with the revenues from these cases recognized as it is earned. Accordingly, changes in revenues may not match changes in the number of cases received.

Direct Compensation and Fringe Benefits

As a percentage of revenues before reimbursements, direct compensation expenses, including related payroll taxes and fringe benefits, were 60.3% and 62.1% for the three months and six months ended June 30, 2012, respectively, compared with 65.9% for each of the comparable periods in 2011. These decreases primarily reflected increased utilization of our staff as a result of the increase in revenue. The dollar amount of these expenses decreased for the three-month period to \$56.5 million in 2012 from \$57.5 million in 2011, and for the six-month period to \$109.1 million in 2012, from \$110.1 million in 2011. Approximately \$0.9 million and \$0.6 million of the decreases in direct compensation and fringe benefits for the three months and six months ended June 30, 2012, respectively, compared with the same periods in 2011, were due to changes in exchange rates. There was an average of 3,095 full-time equivalent employees in this segment in the first six months of 2012 compared with an average of 3,091 in the comparable 2011 period. Within the segment, there was a \$3.4 million and \$6.8 million reduction in direct compensation and fringe benefits in the U.K. for the three- and six-month periods ended June 30, 2012 compared with the same periods in 2011 due to a reduction in the number of full-time equivalent employees in the U.K. and an approximate \$1.1 million and \$2.2 million reduction in pension expense for the three-month and six-month periods ended June 30, 2012 compared with the same periods in 2011. These declines were partially offset by a \$2.4 million and \$5.0 million increase compensation costs in Asia-Pacific for the three-month and six-month periods ended June 30, 2012 compared with the same periods in 2011 primarily as a result of an increase in staff required to administer claims from the Thailand floods and weather-related cases in Australia.

Salaries and wages of EMEA/AP segment personnel were \$48.2 million for the three months ended June 30, 2012 compared with \$48.3 million in the comparable 2011 period. For the six-month periods, salaries and wages of EMEA/AP segment personnel increased slightly to \$92.9 million in 2012 from \$92.5 million in 2011. Payroll taxes and fringe benefits for the EMEA/AP segment totaled \$8.3 million and \$16.2 million for the second quarter and six months ended June 30, 2012, respectively, compared with \$9.2 million and \$17.6 million for the same periods in 2011. These 2012 period decreases were primarily due to lower defined benefit pension expense in the U.K.

Expenses Other than Reimbursements, Direct Compensation and Fringe Benefits

Expenses other than reimbursements, direct compensation and related payroll taxes and fringe benefits were 27.2% and 28.0% of EMEA/AP revenues before reimbursements for the three months and six months ended June 30, 2012, respectively, increasing from 25.4% and 25.3%, respectively, for the comparable periods in 2011. The dollar amount of these expenses increased in the 2012 second quarter to \$25.5 million from \$22.2 million in the second quarter of 2011 and from \$42.2 million in the six-month period ended June 30, 2011 to \$49.2 million for the comparable period in 2012. Changes in exchange rates decreased expenses other than reimbursements, direct compensation and fringe

benefits for the three months and six months ended June 30, 2012, respectively, compared with the same respective periods in 2011, by approximately \$0.3 million and \$0.5 million. The offsetting increases primarily resulted from expenses incurred to administer the Thailand flood claims.

Table of Contents

BROADSPIRE

Our Broadspire segment reported an operating loss of \$0.3 million for the second quarter of 2012, compared with an operating loss of \$3.1 million in the second quarter of 2011. For the six months ended June 30, 2012, Broadspire's operating loss was \$0.2 million, compared with \$6.3 million for the comparable period in 2011. The improvement over the prior periods is due to a combination of increased revenues and higher utilization of our employees, as well as the benefit of ongoing cost control measures.

Revenues before Reimbursements