GSI TECHNOLOGY INC
Form 8-K
July 31, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (date of earliest event reported): **July 31, 2014**

GSI Technology, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**001-33387**	**77-0398779**
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

1213 Elko Drive
Sunnyvale, California 94089
(Address of principal executive offices)

Registrant s telephone number, including area code:
(408)-331-8800

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On July 31, 2014, GSI Technology, Inc. (the Company) issued a press release reporting financial results for its first fiscal quarter ended June 30, 2014. A copy of this press release is attached hereto as Exhibit 99.1.

The information in this Item 2.02, including Exhibit 99.1 attached hereto, is being furnished and shall not be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference to such filing. Furthermore, the information in this Item 2.02, including Exhibit 99.1 attached hereto, shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press release issued by GSI Technology, Inc. dated July 31, 2014

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 31, 2014

GSI Technology, Inc.

By: *\/s/ Douglas M. Schirle*
Douglas M. Schirle
Chief Financial Officer

-family:times;"> Revenues from the majority of the Company's fixed-price engagements are recognized on a proportional performance method based on the ratio of costs incurred, substantially all of which are labor-related, to the total estimated project costs. CRA derived approximately 15%, 22%, 26%, and

---

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21% of consolidated revenues from fixed-price engagements in fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively. Project costs are based on the direct salary of the consultants on the engagement plus all direct expenses incurred to complete the engagement. The proportional performance method is used because reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made, based on historical experience and the terms set forth in the contract, and are indicative of the level of benefit provided to CRA's clients. Fixed-price contracts generally convert to time-and-materials contracts in the event the contract terminates. CRA's management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, management is updated on the budgeted costs and resources required to complete the project. These budgets are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. Occasionally, CRA has been required to commit unanticipated additional resources to complete projects, which has resulted in lower than anticipated income or losses on those contracts. CRA may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

Revenues also include reimbursable expenses, which include travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. Reimbursable expenses are as follows (in thousands):

	Year Ended December 29, 2012 (52 weeks)	Year Ended December 31, 2011 (52 weeks)	Transition Period January 1, 2011 (5 weeks)	Year Ended November 27, 2010 (52 weeks)
Reimbursable expenses	$ 33,530	$ 39,722	$ 2,936	$ 37,585

CRA maintains accounts receivable allowances for estimated losses and disputed amounts resulting from clients' failure to make required payments. The Company bases its estimates on historical collection experience, current trends, and credit policy. In determining these estimates, CRA examines historical write-offs of its receivables and reviews client accounts to identify any specific customer collection issues. If the financial condition of CRA's customers were to deteriorate or disputes were to arise regarding the services provided, resulting in an impairment of their ability or intent to make payment, additional allowances may be required.

Unbilled services represent revenue recognized by CRA for services performed but not yet billed to the client. Deferred revenue represents amounts billed or collected in advance of services rendered.

CRA collects goods and services and value added taxes from customers and records these amounts on a net basis, which is within the scope of Accounting Standards Codification ("ASC") Topic 605-45, "Principal Agent Considerations".

Cash Equivalents and Investments

Cash equivalents consist principally of funds holding only U.S. government obligations, money market funds, and commercial paper, with maturities of three months or less when purchased. As of December 29, 2012, a substantial portion of the Company's cash accounts was concentrated at a single financial institution, which potentially exposes the Company to credit risks. As of December 29, 2012, the financial institution has generally "stable" credit ratings and the Company has not experienced any losses related to such accounts. The short-term credit rating of this financial institution is A-1 by Standard & Poor's ratings services. The Company does not believe that there is significant risk of non-performance by the financial institution and the cash on deposit is fully liquid. The Company continually monitors the credit ratings of the institution.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Short-term investments generally consisted of commercial paper and Canadian government bonds with maturities of more than three months and less than one year when purchased. These short-term investments were expected to be held-to-maturity and were classified as such in the accompanying consolidated financial statements. At December 29, 2012, CRA did not hold any short-term investments. As of December 31, 2011, short-term investments included $14.5 million in commercial paper and are considered Level 2 inputs within the fair value hierarchy.

The carrying amounts of these instruments classified as cash equivalents and short-term investments are stated at amortized cost, which approximates fair value because of their short-term maturity. If a decline in fair value below the amortized cost basis of an investment is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. For those investments for which the fair value of the investment is less than its amortized cost, the credit-related portion of other-than-temporary impairment losses is recognized in earnings while the noncredit-related portion is recognized in other comprehensive income, net of related taxes. The Company does not intend to sell such investments, if any, and it is more likely than not that it will not be required to sell such investments prior to the recovery of its amortized cost basis less any current period credit losses. During fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, the Company did not write-down any investment balances.

Fair Value of Financial Instruments

The Company's financial instruments, including cash, cash equivalents, investments, accounts receivable, loans and advances from employees and non-employee experts, accounts payable, and accrued expenses, are carried at cost, which approximates their fair value because of the short-term maturity of these instruments or their stated interest rates are indicative of market interest rates.

Goodwill

In accordance with ASC Topic 350, "Intangibles Goodwill and Other", goodwill is not subject to amortization, but is monitored at least annually for impairment, or more frequently, as necessary, if events or circumstances exist that would more likely than not reduce the fair value of the reporting unit below its carrying amount. For the Company's goodwill impairment analysis, the Company operates under one reporting unit. Any impairment would be measured based upon the fair value of the related asset. Under ASC Topic 350, in performing the first step of the goodwill impairment testing and measurement process, the Company compares its entity-wide estimated fair value to net book value to identify potential impairment. Management estimates the entity-wide fair value utilizing the Company's market capitalization, plus an appropriate control premium. Market capitalization is determined by multiplying the shares outstanding on the test date by the market price of CRA's common stock on that date. The Company has utilized a control premium which considers appropriate industry, market and other pertinent factors, including indications of such premiums from data on recent acquisition transactions. If the fair value of the Company is less than its net book value, the second step is performed to determine if goodwill is impaired. If the Company determines through the impairment evaluation process that goodwill has been impaired, an impairment charge would be recorded in the consolidated statement of operations.

Late in the second quarter of fiscal 2012, the Company's stock price experienced a decline. In the third quarter of fiscal 2012, the Company's stock price improved but remained below the price levels experienced in fiscal 2011 and the first five months of fiscal 2012. The Company did not record any impairment losses related to goodwill or intangible assets during the fiscal year to date period ended September 29, 2012 as the stock price decline was not deemed to be more than temporary, there were no other events or circumstances that would more likely than not reduce the Company's fair value below its carrying amount, and Company's management felt that an increase in the stock price was a

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reasonable expectation. However, the depressed stock price levels persisted into the fourth quarter of 2012 and through the date of the Company's annual impairment test date performed in the fourth quarter of fiscal 2012. When the Company performed its annual impairment test, its net book value exceeded its market capitalization plus an estimated control premium. Therefore, the Company was required to perform the second step of the goodwill impairment test. In this step, the Company's fair value is allocated among all of its assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the Company were being acquired in a business acquisition. If the implied fair value of goodwill is less than the recorded goodwill, an impairment charge is recorded for the difference. During the process of conducting the second step of the annual goodwill impairment test in the fourth quarter of fiscal 2012, the Company identified significant unrecognized intangible assets. The combination of these hypothetical unrecognized intangible assets and other hypothetical unrecognized fair value changes to the carrying values of other assets and liabilities, together with the lower fair value calculated in the first step of the annual impairment test, resulted in a non-cash goodwill impairment charge of $71.4 million in the fourth quarter of fiscal 2012.

The re-measurement of goodwill is classified as a Level 3 fair value assessment due to the significance of unobservable inputs developed using Company-specific information. The Company used a combination of the income, cost and market approach techniques to determine the fair value of its assets and liabilities. The fair value adjustment to goodwill was computed as the difference between the Company's fair value and the fair value of underlying assets and liabilities. The unobservable inputs used to determine the fair value of the underlying assets and liabilities were based on Company-specific information such as estimates of revenue and cost growth rates, profit margins, discount rates, and cost estimates.

Intangible Assets

Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and amortized over their estimated useful lives. Intangible assets consist of non-competition agreements, customer relationships, customer lists, developed technology, and trademarks, all of which are generally amortized on a straight-line basis over their remaining useful lives of four to ten years.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of three years for computer equipment, three to ten years for computer software, and ten years for furniture and fixtures. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the lease term or the estimated useful life of the leasehold improvements. Expenditures for maintenance and repairs are expensed as incurred. Expenditures for renewals and betterments are capitalized.

Leases and Deferred Rent

The Company leases all of its office space. Leases are evaluated and classified as operating or capital leases for financial reporting purposes. For leases that contain rent escalations and rent holidays, the Company records the total rent payable during the lease term, as determined above, on a straight-line basis over the term of the lease and records the difference between the rents paid and the straight-line rent as deferred rent. Additionally, any tenant improvement allowances received from the lessor are recorded as a reduction to deferred rent.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impairment of Long-Lived Assets

The Company reviews the carrying value of its long-lived assets (primarily property and equipment and intangible assets) to assess the recoverability of these assets whenever events or circumstances indicate that impairment may have occurred. Factors CRA considers important that could trigger an impairment review include the following:

- a significant underperformance relative to expected historical or projected future operating results;
- a significant change in the manner of CRA's use of the acquired asset or the strategy for CRA's overall business; and
- a significant negative industry or economic trend.

If CRA determines that an impairment review is required, CRA would review the expected future undiscounted cash flows to be generated by the assets or asset groups. If CRA determines that the carrying value of long-lived assets or asset groups may not be recoverable, CRA would measure any impairment based on a projected discounted cash flow method using a discount rate determined by CRA to be commensurate with the risk inherent in CRA's current business model. If impairment is indicated through this review, the carrying amount of the assets would be reduced to their estimated fair value.

Concentration of Credit Risk

The Company's billed and unbilled receivables consist of receivables from a broad range of clients in a variety of industries located throughout the U.S. and in other countries. The Company performs a credit evaluation of its clients to minimize its collectability risk. Periodically, the Company will require advance payment from certain clients. However, the Company does not require collateral or other security. The Company maintains accounts receivable allowances for estimated losses and disputed amounts resulting from clients' failures to make required payments. The Company bases its estimates on historical collection experience, current trends, and credit policy. In determining these estimates, CRA examines historical write-offs of its receivables and reviews client accounts to identify any specific customer collection issues. If the financial condition of any of CRA's customers were to deteriorate, resulting in an impairment of their ability or intent to make payment, additional allowances may be required.

A rollforward of the accounts receivable allowances is as follows (in thousands):

	Fiscal Year 2012	Fiscal Year 2011
Balance at beginning of period	$ 6,548	$ 7,036
Change related to NeuCo		(155)
Additions charged to revenues	6,808	4,628
Amounts written off	(3,897)	(4,961)
Balance at end of period	$ 9,459	$ 6,548

Amounts deemed uncollectible are recorded as a reduction to revenues.

The consolidated statement of cash flows for the fiscal year ended December 31, 2011, the five-week period ended January 1, 2011 and the fiscal year ended November 27, 2010 has been adjusted to properly present the noncash component related to the Company's change in accounts

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

receivable. These amounts were previously presented on a net basis. This revision is not material to the Company's consolidated financial statements taken as a whole.

Share-Based Compensation

CRA accounts for equity-based compensation using a fair value based recognition method. Under the fair value recognition requirements of ASC Topic 718, "Compensation-Stock Compensation" ("ASC Topic 718"), share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award. The amount of share-based compensation expense recognized at any date must at least equal the portion of grant date value of the award that is vested at that date.

For share-based awards granted to non-employee experts, CRA accounts for the compensation under variable accounting in accordance with ASC Topic 718 and ASC Topic 505-50, "Equity-Based Payments to Non-Employees" (formerly Emerging Issues Task Force 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services"), and recognizes the cost over the related vesting period. For performance-vesting restricted stock units awarded to employees, CRA accounts for the compensation under variable accounting in accordance with ASC Topic 718, and recognizes the cost over the related vesting period.

Income Taxes

The Company accounts for income taxes using the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets if it is more likely than not that such assets will not be realized.

In addition, the calculation of the Company's tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different tax jurisdictions. The Company records liabilities for estimated tax obligations resulting in a provision for taxes that may become payable in the future, in accordance with ASC Topic 740-10, "Income Taxes," which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. CRA includes accrued interest and penalties, if any, related to uncertain tax positions in income tax expense.

Foreign Currency Translation

Balance sheet accounts of the Company's foreign subsidiaries are translated into U.S. dollars at year-end exchange rates and operating accounts are translated at average exchange rates for each year. The resulting translation adjustments are recorded in shareholders' equity as a component of accumulated other comprehensive income (loss). Foreign currency transactions are translated at current exchanges rates, with adjustments recorded in the statement of operations. The effect of transaction gains and losses recorded in income (loss) amounted to a loss of $0.2 million for fiscal 2012, a loss of $0.4 million for fiscal 2011, a gain of $47,000 during the five-week transition period ended January 1, 2011, and a loss of $0.5 million for fiscal 2010.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recent Accounting Standards

Intangibles

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* ("ASU 2012-02") to simplify the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. Under former guidance, an organization was required to test an indefinite-lived intangible asset for impairment on at least an annual basis by comparing the fair value of the asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeded its fair value, an impairment loss was recognized in an amount equal to the difference. ASU 2012-02 allows an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is "more likely than not" that the asset is impaired. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company believes the adoption of ASU 2012-02 will have no impact on its financial position, results of operations, cash flows, or disclosures.

Goodwill

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment* ("ASU 2011-08"). The objective of ASU 2011-08 is to simplify how entities test goodwill for impairment. The amendments in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company's adoption of ASU 2011-08 in the first quarter of fiscal 2012 had no impact on its financial position, results of operations, cash flows, or disclosures.

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28"). ASU 2010-28 clarifies the requirement to test for impairment of goodwill. Topic 350 requires that goodwill be tested for impairment if the carrying amount of a reporting unit exceeds its fair value. Under ASU 2010-28, when the carrying amount of a reporting unit is zero or negative, an entity must assume that it is more likely than not that a goodwill impairment exists, perform an additional test to determine whether goodwill has been impaired, and calculate the amount of that impairment. The modifications to Topic 350 resulting from the issuance of ASU 2010-28 are effective for fiscal years beginning after December 15, 2010 and interim periods within those years. The adoption of the provisions of ASU 2010-28 in fiscal 2011 had no effect on the Company's financial position, results of operations, cash flows, or disclosures.

Comprehensive Income

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05"). The objective of ASU 2011-05 is to increase the prominence of items reported in other comprehensive income. The main provisions of ASU 2011-05 provide that an entity that reports items of other comprehensive income has the option to present comprehensive income in either one or two consecutive financial statements. ASU 2011-05 is effective

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. The Company adopted ASU 2011-05 in the first quarter of fiscal 2012 and elected to present other comprehensive income in two consecutive financial statements. The Company's adoption of ASU 2011-05 had no impact on its financial position, results of operations, or cash flows.

Fair Value Measurements

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). ASU 2011-04 does not require additional fair value measurements and is primarily a convergence of words between U.S. GAAP and IFRS. ASU 2011-04 was effective for the first interim or annual reporting period beginning on or after December 15, 2011. The Company's adoption of ASU 2011-04 in the first quarter of fiscal 2012 had no impact on its financial position, results of operations, cash flows, or disclosures.

Business Combinations

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010-29"), which requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The amendments in ASU 2010-29 are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of the provisions of ASU 2010-29 in fiscal 2011 had no effect on the Company's financial position, results of operations, cash flows, or disclosures.

2. Prepaids and Other Assets

Prepaid expenses and other assets consist of the following (in thousands):

	December 29, 2012	December 31, 2011
Forgivable loans and term loans to employees and non-employee experts	$ 11,875	$ 1,343
Income taxes receivable	4,104	93
Subscriptions and licenses	1,395	1,170
Prepaid insurance	1,330	1,515
Prepaid rent and deposits	968	1,191
Other	3,329	2,912
Total	$ 23,001	$ 8,224

In order to attract and retain highly skilled professionals, the Company may issue forgivable loans or term loans to employees and non-employee experts. A portion of the term loans are collateralized. The forgivable loans are unsecured with terms between three and eight years. The principal amount of forgivable loans and accrued interest is forgiven by the Company over the term of the loans, so long as the employee or non-employee expert continues employment or affiliation with the Company and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans is recorded as compensation expense over the service period, which is consistent with the term of the loans. During fiscal 2012 and fiscal 2011, the Company issued approximately $20.7 million and $5.5 million, respectively, in forgivable loans and term loans to employees and non-employee experts for future service. These loans are classified in "prepaid and other assets" and "other assets" on the accompanying balance sheet as of December 29, 2012 and December 31, 2011.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill for fiscal 2012 and fiscal 2011 are as follows (in thousands):

Balance at January 1, 2011	$	140,681
Goodwill adjustments related to acquisitions		85
Effect of foreign currency translation and other adjustments		(112)
Balance at December 31, 2011	$	140,654
Goodwill impairment		(71,394)
Goodwill adjustments related to sale of practice		(29)
Effect of foreign currency translation and other adjustments		1,534
Balance at December 29, 2012	$	70,765

When the Company performed its annual impairment test in the fourth quarter of fiscal 2012, its net book value exceeded its market capitalization plus an estimated control premium. Therefore, the Company was required to perform the second step of the goodwill impairment test, which resulted in a goodwill impairment charge of $71.4 million. The Company recorded this non-cash goodwill impairment charge in the fourth quarter of fiscal 2012.

There were no impairment losses related to goodwill or intangible assets during fiscal 2011. During the five weeks ended January 1, 2011, in connection with the sale of its Asia-Pacific based Energy practice, the Company recorded a charge of approximately $39,000 related to the write-off of goodwill. In fiscal 2010, in connection with the sale of select practice areas, the Company recorded charges of $0.3 million in the aggregate related to the write-off of goodwill.

Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and amortized over their expected useful lives.

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

	December 29, 2012		December 31, 2011	
Non-competition agreements, net of accumulated amortization of $3,311, and $2,804, respectively	$	1,047	$	1,475
Customer relationships, net of accumulated amortization of $2,840 and $2,529, respectively		691		948
Other intangible assets, net of accumulated amortization of $971, and $1,473, respectively		96		49
	$	1,834	$	2,472

Amortization of intangible assets was $0.8 million, $0.9 million, $0.1 million, and $1.0 million in fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010,

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

respectively. Amortization of intangible assets held at December 29, 2012 for the next five fiscal years is expected to be as follows (in thousands):

Fiscal Year	Amortization Expense
2013	$ 767
2014	616
2015	278
2016	92
2017	49
	$ 1,802

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	December 29, 2012	December 31, 2011
Computer, office equipment and software	$ 24,867	$ 25,478
Leasehold improvements	20,622	25,569
Furniture	7,886	9,169
	53,375	60,216
Accumulated depreciation and amortization	(35,395)	(38,605)
	$ 17,980	$ 21,611

Depreciation expense, including amounts recorded in costs of services, was $5.0 million, $4.1 million, $0.4 million, and $5.2 million in fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively.

5. Other Assets

Other Assets consist of the following (in thousands):

	December 29, 2012	December 31, 2011
Forgivable loans and term loans to employees and non-employee experts	$ 17,364	$ 12,612
Other	4,307	4,729
Total	$ 21,671	$ 17,341

In order to attract and retain highly skilled professionals, the Company may issue forgivable loans or term loans to employees and non-employee experts. A portion of the term loans are collateralized. The forgivable loans are unsecured with terms between three and eight years. The principal amount of forgivable loans and accrued interest is forgiven by the Company over the term of the loans, so long as the employee or non-employee expert continues employment or affiliation with the Company and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans is recorded as compensation expense over the service period, which is consistent with the term of the loans. These loans are classified in "prepaid and other assets" and "other assets" on the accompanying balance sheet as of December 29, 2012 and December 31, 2011.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	December 29, 2012	December 31, 2011
Compensation and related expenses	$ 40,329	$ 53,438
Income taxes payable	626	2,602
Other	4,350	4,462
	$ 45,305	$ 60,502

As of December 29, 2012 and December 31, 2011, approximately $28 million and $39 million of accrued bonuses for fiscal 2012 and fiscal 2011, respectively, were included above in "Compensation and related expenses".

7. Private Placement of Convertible Debt and Other Financing

Private Placement of Convertible Debt. In 2004, CRA completed a private placement of $90.0 million of 2.875% convertible senior subordinated debentures due in 2034. On June 15, 2011, the Company repurchased 100% of the principal amount of the outstanding debentures plus accrued and unpaid interest, which amounted to $21.9 million and $0.3 million, respectively.

The carrying amount of the common stock component of the convertible debentures was $7.7 million as of each of December 29, 2012 and December 31, 2011 and is included in common stock.

Through June 15, 2011, the effective interest rate of the debentures for fiscal 2011 was 5.7%. The effective interest rates of the debentures for the five-week transition period ended January 1, 2011 and fiscal 2010 were 5.7% and 5.6% respectively.

For fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, the contractual interest, amortization of prepaid debt issuance costs, and amortization of the discount included in interest expense was $0.6 million, $0.1 million, and $2.9 million, respectively.

Borrowings under the Revolving Line of Credit. The Company has a $60.0 million revolving line of credit with RBS Citizens, N.A with a maturity date of April 30, 2014. The revolving line of credit provides CRA with the additional flexibility to meet any unforeseen financial requirements. The amounts available under this revolving line of credit are constrained by various financial covenants and are reduced by certain letters of credit outstanding, which amounted to $0.6 million as of December 29, 2012. There were no amounts outstanding under this revolving line of credit as of December 29, 2012 or December 31, 2011.

Under the senior loan agreement with RBS Citizens that governs the line of credit, the Company must comply with various financial and non-financial covenants. As of December 29, 2012, the Company was in compliance with its agreement with the bank. Borrowings under the credit facility bear interest at LIBOR plus an applicable margin. Applicable margins range from 1.75% to 2.75%, depending on the ratio of the Company's consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the preceding four fiscal quarters, subject to various adjustments stated in the senior loan agreement. A commitment fee of 0.25% is payable on the unused portion of the credit facility.

Borrowings under the credit facility are secured by 100% of the stock of certain of CRA's U.S. subsidiaries and 65% of the stock of CRA's foreign subsidiaries, which represents approximately $9.8 million in net assets as of December 29, 2012.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Employee Benefit Plans

The Company maintains qualified defined-contribution plans under Section 401(k) of the Internal Revenue Code, covering substantially all U.S. employees who meet specified age and service requirements. Company contributions are made at the discretion of the Company, and cannot exceed the maximum amount deductible under applicable provisions of the Internal Revenue Code. Company contributions under these plans amounted to approximately $1.8 million, $2.7 million, $0.2 million, and $2.2 million, for fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively.

9. Leases

At December 29, 2012, the Company had the following minimum rental commitments for office space and equipment leases, all of which are under non-cancelable operating leases (in thousands):

Fiscal Year	Rental Commitments
2013	$ 14,187
2014	13,389
2015	8,248
2016	2,843
2017	1,320
Thereafter	818
	$ 40,805
Future minimum rentals under sublease arrangements	(5,847)
	$ 34,958

Certain office leases contain renewal options that the Company may exercise at its discretion, which were not included in the amounts above. Rent expense was approximately $12.4 million in fiscal 2012, $13.6 million in fiscal 2011, $1.3 million for the five-week transition period ended January 1, 2011, and $15.7 million in fiscal 2010. Included in rent expense were $0.9 million, $1.0 million, and $2.1 million in restructuring charges in fiscal 2012, fiscal 2011, and fiscal 2010, respectively.

The Company is party to standby letters of credit with its bank in support of the minimum future lease payments under leases for office space amounting to $0.4 million as of December 29, 2012.

10. Net Income (Loss) Per Share

Basic net income (loss) per share represents net income (loss) divided by the weighted average shares of common stock outstanding during the period. Diluted net income per share represents net income divided by the weighted average shares of common stock and common stock equivalents, if applicable, outstanding during the period. Common stock equivalents arise from stock options and unvested shares of restricted stock, using the treasury stock method. Under the treasury stock method, the amount the Company would receive on the exercise of stock options and the vesting of shares of restricted stock, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in common stock when these stock options and shares of restricted stock become deductible are assumed to be used to repurchase shares at the average share price over the applicable fiscal period, and these repurchased shares are netted against the shares underlying these stock options and these unvested shares of restricted stock. A

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reconciliation of basic to diluted weighted average shares of common stock outstanding is as follows (in thousands):

	Fiscal Year 2012	Fiscal Year 2011	Transition Period	Fiscal Year 2010
Basic weighted average shares outstanding	10,167	10,555	10,567	10,643
Common stock equivalents:				
Stock options and restricted stock		184		130
Diluted weighted average shares outstanding	10,167	10,739	10,567	10,773

For fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, certain share-based awards, which amounted to 1,947,992, 1,045,351, 1,244,708 and 1,047,146 shares, respectively, were excluded from the calculation of common stock equivalents for purposes of computing diluted weighted average shares outstanding because they were anti-dilutive. These share-based awards were anti-dilutive because their exercise price exceeded the average market price over the applicable period. Additionally, approximately 140,000 and 174,000 common stock equivalents were excluded from diluted weighted average shares outstanding for fiscal 2012 and the five-week transition period ended January 1, 2011, respectively, because they were anti-dilutive as the Company had a net loss for those periods.

11. Common Stock

Share-Based Compensation. Approximately $4.9 million, $5.7 million, $0.8 million, and $6.4 million of share-based compensation expense were recorded in fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively, as an increase to common stock for share-based payment awards made to the Company's employees and directors, based on the estimated grant date fair values of stock options and shares of restricted stock vesting during the period.

CRA also recorded $79,000, $34,000, $11,000, and $0.1 million for fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively, in shared-based compensation expense for grants to non-employee experts.

Restricted Share Vesting. In fiscal 2012, fiscal 2011, and fiscal 2010, 216,528, 164,086, and 137,622 shares of restricted stock vested, respectively. CRA redeemed 69,207, 50,724, and 43,484 of these shares from their holders in order to pay $1.4 million, $1.1 million, and $1.1 million, respectively, of employee tax withholdings. There were no shares of restricted stock that vested during the five-week transition period ended January 1, 2011.

Common Stock Repurchases and Retirements. On July 6, 2010, the Company announced that its Board of Directors approved a share repurchase program of up to $5 million of the Company's common stock. On August 30, 2011, February 22, 2012 and August 10, 2012, the Board of Directors authorized the repurchase of up to an additional $7.5 million, $4.45 million, and $5.0 million, respectively, of the Company's common stock under this program. During fiscal 2012, the Company repurchased and retired 466,109 shares of its common stock under this program at an aggregate price of approximately $9.1 million, resulting in approximately $3.6 million available for future repurchases as of December 29, 2012. During fiscal 2011, the Company repurchased and retired 398,372 shares of its common stock under this program at an aggregate price of approximately $9.1 million.

In addition, during fiscal 2010, the Company repurchased 10,319 shares of its common stock from non-employee experts and employees based on contractual rights of first purchase contained in their stock purchase agreements with the Company. During fiscal 2012, fiscal 2011, and the transition period,

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company did not repurchase any shares of its common stock from non-employee experts and employees based on contractual rights of first purchase contained in their stock purchase agreement with the Company.

The Company records the retirement of its repurchased common stock as a reduction to common stock.

Exercise of Stock Options. During fiscal 2012, 47,185 options were exercised for $0.6 million of proceeds. During fiscal 2011, 47,009 options were exercised for $0.6 million of proceeds. There were no stock options exercised during the five-week transition period ended January 1, 2011. During fiscal 2010, 68,435 options were exercised for $1.0 million of proceeds.

Tax Deficit on Stock Option Exercises and Restricted Share Vesting. The Company recorded tax deficits on stock options exercises and vesting of shares of restricted stock as a decrease to common stock in fiscal 2012, fiscal 2011, the five week transition period ended January 1, 2011, and fiscal 2010 totaling $0.6 million, $0.6 million, $0.8 million and $1.1 million, respectively.

Convertible Debenture Extinguishment. The Company recorded $41,000 as an increase to common stock in fiscal 2010 related to the repurchase of convertible debentures. There were no amounts recorded to common stock in fiscal 2012, fiscal 2011 and the five-week transition period ended January 1, 2011 related to the repurchase of convertible debentures.

12. Share-Based Compensation

CRA recorded $4.9 million, $5.7 million, $0.8 million, and $6.5 million of compensation expense for fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively, for share-based awards consisting of stock options, shares of restricted stock and time-vesting restricted stock units issued to employees and directors based on their respective estimated grant date fair values. Compensation expense also includes performance-vesting restricted stock units issued to employees that are accounted for under variable accounting in accordance with ASC Topic 718.

Compensation expense, net of tax, was $3.0 million, $3.5 million, $0.5 million, and $3.9 million in fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively, for share-based awards made to the Company's employees and directors consisting of stock options, shares of restricted stock, and time-vesting restricted stock units issued to employees and directors based on their respective estimated grant date fair values and for performance-vesting restricted stock units issued to employees that are accounted for under variable accounting. In addition, the Company recorded $79,000, $34,000, $11,000, and $0.1 million of share-based compensation expense, net of tax, during fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively, for share-based awards consisting of stock options and shares of restricted stock issued to non-employees (other than directors).

The weighted average fair market value using the Black-Scholes option-pricing model of the stock options granted in fiscal 2011 and fiscal 2010 was $10.01 and $9.21, respectively. There were no stock options granted during fiscal 2012 or the transition period. The fair market value of the stock options

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2011	2010
Risk-free interest rate	1.0%	1.2%
Expected volatility	54%	51%
Weighted average expected life (in years)	5.00	5.00
Expected dividends		

The risk-free interest rate is based on U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. Expected volatility and expected life are based on the Company's historical experience. Expected dividend yield was not considered in the option-pricing formula because CRA does not pay dividends and has no current plans to do so in the future. The forfeiture rate used was based upon historical experience. CRA may adjust the estimated forfeiture rate based upon actual experience.

CRA maintains share-based compensation plans that use restricted stock, stock options, restricted stock units, as well as an employee stock purchase plan, to provide incentives to its directors, employees and independent contractors.

CRA's Amended and Restated 2006 Equity Incentive Plan, as amended (the "2006 Incentive Plan"), authorizes the grant of a variety of incentive and performance awards to the Company's directors, employees and independent contractors, including incentive stock options, nonqualified stock options, restricted stock awards, restricted stock unit awards, performance awards and other share-based awards. Each share of the Company's common stock issued pursuant to an award (other than a stock option) granted under the 2006 Incentive Plan on or after April 30, 2010 counts as 1.83 shares against the maximum number of shares issuable under the plan, as does any restricted stock unit or other performance award granted under the plan on or after April 30, 2010 to the extent that shares of the Company's common stock were or will be used for measurement purposes. This "fungibility ratio" with respect to shares of the Company's common stock issued pursuant to awards (other than stock options) granted under the plan, as well as restricted stock unit and other performance awards granted under the plan to the extent that shares of the Company's common stock are used for measurement purposes, was 2.2 for grants made on or after March 12, 2008 and before April 30, 2010 and 1.8 for grants made before March 12, 2008. The maximum number of shares issuable under the 2006 Incentive Plan is 4,874,000, consisting of (1) 500,000 shares initially reserved for issuance under the 2006 Incentive Plan, (2) 1,000,000 shares that either remained for future awards under our 1998 Incentive and Nonqualified Stock Option Plan (the "1998 Plan") on April 21, 2006, the date the Company's shareholders initially approved the 2006 Incentive Plan, or were subject to stock options issued under the 1998 Plan that were forfeited or terminated after April 21, 2006, (3) 210,000 shares approved by the Company's shareholders in 2008, (4) 1,464,000 shares approved by the Company's shareholders in 2010, and (5) the 1,700,000 shares that the Company has determined to use of the 2,500,000 shares approved by the Company's shareholders in 2012.

During fiscal 2009, the Company implemented a long-term incentive program ("LTIP") for certain key employees. Under this program, participants may receive a mixture of stock options, restricted stock units, and performance-vesting restricted stock units. The program is designed to reward key employees and provide participants the opportunity to share in the long-term growth of the Company. During fiscal 2011, fiscal 2010 and fiscal 2009, the Company granted options, restricted stock units, and performance-vesting restricted stock units under this program. There were no awards were granted under this program during fiscal 2012. The awards were granted under the 2006 Incentive Plan and are included in the discussion below.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a rollforward of the maximum number of shares issuable under the 2006 Incentive Plan as of December 29, 2012:

	Actual Shares	Shares Using Fungibility Ratio
Maximum shares of common stock issuable under the 2006 Incentive Plan		4,874,000
Restricted shares or units granted/reserved through March 12, 2008	467,644	(841,634)
Restricted shares or units granted/reserved from March 12, 2008 to April 29, 2010	343,521	(755,746)
Restricted shares or units granted/reserved on or after April 30, 2010	626,877	(1,147,184)
Cancellation of restricted shares or units through March 12, 2008	91,277	164,299
Cancellation of restricted shares or units from March 12, 2008 to April 29, 2010	19,126	42,077
Cancellation of restricted shares or units on or after April 30, 2010	23,434	42,884
Options granted		(653,655)
Options cancelled		153,389
Options forfeited		10,000
Shares available for grant under the 2006 Incentive Plan		1,888,430

Under the 1998 Plan, 3,839,216 options to purchase shares have been granted. With the adoption of the 2006 Incentive Plan, no new options will be granted under the 1998 Plan. Under the terms of the 1998 Plan, options have been granted at an exercise price equal to the fair market value of the shares of common stock at the date of grant. Vesting terms were determined at the discretion of the Board of Directors and generally range from immediate vesting to vesting at various rates up to five years. In general, stock options terminate 10 years after the date of grant.

In addition, under the Company's 2004 Nonqualified Inducement Stock Option Plan, options to purchase 359,420 shares have been granted. With the adoption of the 2006 Incentive Plan, no new stock options will be granted under the 2004 Nonqualified Inducement Stock Option Plan.

During fiscal 2009, the Company adopted the 2009 Nonqualified Inducement Stock Option Plan. There are a maximum of 250,000 shares available for issuance pursuant to stock option grants under the 2009 Nonqualified Inducement Stock Option Plan. During fiscal 2009, stock options to purchase 200,000 shares were granted. Each stock option vests over four years, has a term of seven years, and an exercise price equal to $50.00 per share. There are an additional 50,000 stock options available for grant under this plan.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A summary of option activity from all plans is as follows:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2011	1,315,467	$ 31.82		
Fiscal 2012:				
Granted				
Exercised	(47,185)	13.71		
Forfeited	(98,804)	34.39		
Outstanding at December 29, 2012	1,169,478	32.33	3.23	$ 45
Options exercisable at December 29, 2012	867,902	$ 34.70	2.57	$ 45

The aggregate intrinsic value of stock options exercised in fiscal 2012, fiscal 2011, and fiscal 2010 was approximately $0.4 million, $0.6 million, and $0.5 million, respectively. There were no stock options exercised during the five-week transition period ended January 1, 2011. The following table summarizes stock options outstanding and stock options exercisable as of December 29, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 29, 2012	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable at December 29, 2012	Weighted-Average Exercise Price
$10.86 - 20.75	17,122	1.19	$ 16.60	15,255	$ 16.09
$20.76 - 21.91	366,207	5.40	$ 21.68	135,084	$ 21.60
$21.92 - 22.81	79,360	0.44	$ 22.81	79,360	$ 22.81
$22.82 - 29.07	122,326	3.55	$ 25.00	91,240	$ 25.22
$29.08 - 32.09	53,502	1.34	$ 32.00	53,502	$ 32.00
$32.10 - 32.26	154,147	1.36	$ 32.26	154,147	$ 32.26
$32.27 - 48.85	83,250	2.24	$ 38.80	83,250	$ 38.80
$48.86 - 50.00	150,000	3.51	$ 50.00	112,500	$ 50.00
$50.01 - 53.72	143,564	2.19	$ 50.87	143,564	$ 50.87
Total	1,169,478	3.23	$ 32.33	867,902	$ 34.70

The following table summarizes the status of CRA's non-vested stock options since December 31, 2011:

	Non-vested Options	
	Number of Shares	Weighted-Average Fair Value
Non-vested at December 31, 2011	499,865	$ 8.92
Granted		
Vested	(163,306)	8.90
Forfeited	(34,983)	9.27
Non-vested at December 29, 2012	301,576	$ 8.89

The total fair value of stock options that vested during fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010 was $1.5 million, $1.1 million, $2,250, and $0.9 million, respectively. As of December 29, 2012, there was $2.5 million of total unrecognized

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

compensation cost, net of expected forfeitures, related to non-vested stock options granted. That cost is expected to be recognized over a weighted-average period of 2.3 years.

CRA grants restricted stock and time-vesting restricted stock unit awards, which are subject to the execution of a restricted stock agreement or restricted stock unit agreement, as applicable. Generally, shares of restricted stock and time-vesting restricted stock units vest in four equal annual installments beginning on the first anniversary of the date of grant. Total unrecognized compensation cost, net of expected forfeitures, related to restricted stock and time-vesting restricted stock unit awards as of December 29, 2012 was $4.5 million, which is expected to be recognized over a weighted-average period of 2.3 years.

The following table summarizes the status of CRA's non-vested restricted stock and time-vesting restricted stock unit awards since December 31, 2011:

	Non-vested Restricted Stock and Stock Units	
	Number of Shares	Weighted-Average Fair Value
Non-vested at December 31, 2011	383,085	$ 24.23
Granted	154,887	20.89
Vested	(216,528)	25.81
Forfeited	(22,311)	21.82
Non-vested at December 29, 2012	299,133	$ 22.49

As of December 29, 2012, there were 159,423 vested shares outstanding that include a right of first refusal provision in favor of the Company. As of December 29, 2012, there were 181,740 stock options exercisable that include this right of first refusal provision.

Performance share awards are valued based on the fair value of CRA's stock as of the grant date and expense is recognized based on the number of shares expected to vest under the terms of the award under which they are granted. As of December 29, 2012, up to approximately 160,000 shares will become issuable under performance share awards upon achievement of certain financial performance goals, including revenue and profits, for a measurement period falling within the first quarter of fiscal 2012 through the fourth quarter of fiscal 2013. Additionally, up to approximately 132,000 shares will become issuable under performance share awards upon achievement of certain financial performance goals, including revenue and profits, for a measurement period falling within the fourth quarter of fiscal 2009 through the third quarter of fiscal 2013.

The Company adopted its 1998 Employee Stock Purchase Plan. The Stock Purchase Plan authorizes the issuance of up to an aggregate of 243,000 shares of common stock to participating employees at a purchase price equal to 85% of fair market value on either the first or the last day of the one-year offering period under the Stock Purchase Plan. In fiscal 2012, fiscal 2011, the five-week period ended January 1, 2011, and fiscal 2010, there were no offering periods under the Stock Purchase Plan and no shares were issued.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Business Segment and Geographic Information

CRA operates in one business segment, which is consulting services. Revenue and long-lived assets by country, based on the physical location of the operation to which the revenues or the assets relate, are as follows (in thousands):

	Fiscal Year 2012 (52 weeks)	Fiscal Year 2011 (52 weeks)	Transition Period January 1, 2011 (5 weeks)	Fiscal Year 2010 (52 weeks)
Revenue:				
United States	$ 207,779	$ 224,661	$ 17,030	$ 211,390
United Kingdom	51,059	58,426	3,504	54,496
Other	11,552	22,141	1,716	21,538
Total foreign	62,611	80,567	5,220	76,034
	$ 270,390	$ 305,228	$ 22,250	$ 287,424

	December 29, 2012	December 31, 2011
Long-lived assets (property and equipment, net):		
United States	$ 15,442	$ 17,632
United Kingdom	2,452	3,716
Other	86	263
Total foreign	2,538	3,979
	$ 17,980	$ 21,611

14. Income Taxes

The components of income (loss) before (provision) benefit for income taxes are as follows (in thousands):

	Fiscal Year 2012 (52 weeks)	Fiscal Year 2011 (52 weeks)	Transition Period January 1, 2011 (5 weeks)	Fiscal Year 2010 (52 weeks)
Income (loss) before (provision) benefit for income taxes:				
U.S.	$ (27,290)	$ 26,150	$ (2,674)	$ 7,456
Foreign	(30,733)	1,933	1,728	(1,223)
Total	$ (58,023)	$ 28,083	$ (946)	$ 6,233

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of income tax provision (benefit) have been recorded in the Company's financial statements as follows (in thousands):

	Fiscal Year 2012 (52 weeks)	Fiscal Year 2011 (52 weeks)	Transition Period January 1, 2011 (5 weeks)	Fiscal Year 2010 (52 weeks)
Income tax provision (benefit)	$ (5,180)	$ 11,138	$ (288)	$ 4,273
Tax deficit on stock option exercises and restricted share vesting charged directly to common stock	576	639	839	1,131
	$ (4,604)	$ 11,777	$ 551	$ 5,404

The provision (benefit) for income taxes consists of the following (in thousands):

	Fiscal Year 2012 (52 weeks)	Fiscal Year 2011 (52 weeks)	Transition Period January 1, 2011 (5 weeks)	Fiscal Year 2010 (52 weeks)
Currently payable:				
Federal	$ 3,637	$ 15,964	$ (70)	$ 1,225
Foreign	50	309	49	771
State	1,015	3,604		99
	4,702	19,877	(21)	2,095
Deferred:				
Federal	(8,163)	(6,829)	(217)	1,837
Foreign	21	(286)		(71)
State	(1,740)	(1,624)	(50)	412
	$ (9,882)	$ (8,739)	$ (267)	$ 2,178
	$ (5,180)	$ 11,138	$ (288)	$ 4,273

A reconciliation of the Company's tax rates with the federal statutory rate is as follows:

	Fiscal Year 2012	Fiscal Year 2011	Transition Period January 1, 2011	Fiscal Year 2010
Federal statutory rate	(35.0)%	35.0%	(35.0)%	35.0%
State income taxes, net of federal income tax benefit	(1.3)	7.0	(5.2)	8.2
Goodwill impairment	20.6			
Foreign losses benefited	(0.1)	(3.0)	(1.5)	(6.3)
Losses not benefited	4.2		27.0	17.3
Foreign rate differential	2.1	0.9	(40.8)	7.2
Foreign tax credit	(0.5)	(1.4)		(2.4)
Disposition of foreign operations			22.5	
Impact of NeuCo's tax provision charges	0.1	1.2		4.0
Permanently disallowed expenses	1.0	1.5	2.7	7.8
Other		(1.5)	(0.1)	(2.2)
	(8.9)%	39.7%	(30.4)%	68.6%

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the Company's deferred tax assets (liabilities) are as follows (in thousands):

	December 29, 2012	December 31, 2011
Deferred tax assets:		
Accrued compensation and related expense	$ 16,743	$ 19,340
Tax basis in excess of financial basis of net accounts receivable	2,382	2,271
Net operating loss carryforwards	6,682	4,090
Tax basis in excess of financial basis of fixed assets	978	2,082
Excess tax over book amortization	5,926	
Accrued expenses and other	2,565	2,202
Total gross deferred tax assets	35,276	29,985
Less: valuation allowance	(7,287)	(5,027)
Total deferred tax assets net of valuation allowance	27,989	24,958
Deferred tax liabilities:		
Excess book over tax amortization		6,319
Tax basis in excess of financial basis of debentures	6,371	6,295
Total deferred tax liabilities	6,371	12,614
Net deferred tax assets	$ 21,618	$ 12,344

In general, a valuation allowance is recorded against deferred tax assets because management believes, after considering the available evidence, that it is more likely than not that the assets will not be realized. Reductions in valuation allowances are a result of management's consideration of historical profitability future expected results, and the nature of the related deferred tax assets. The net change in the total valuation allowance for fiscal 2012 was an increase of approximately $2.3 million compared to fiscal 2011. The net change was related to the recording of additional valuation allowances against certain foreign net deferred assets including foreign net operating losses of $2.5 million reduced by the utilization of $0.2 million of certain prior net operating losses. The net change in the total valuation allowance for fiscal 2011 was a decrease of approximately $2.3 million compared to the five-week transition period ended January 1, 2011. The net change was related to the release of valuation allowances against certain foreign net deferred assets including foreign net operating losses of $1.7 million and a change in estimate of foreign tax credit carryforwards of $0.6 million. In fiscal 2011, as a result of improved profitability over a three-year period and anticipated future profitability in certain foreign jurisdictions, the Company determined that it was more likely than not that certain of the foreign deferred tax assets, including certain foreign net operating loss carryforwards, would be realized, and accordingly released valuation allowances of approximately $1.7 million. The ultimate realization of deferred tax assets that continue to be subject to valuation allowances is dependent upon the generation of future taxable income during the periods and in the tax jurisdictions in which those temporary differences become deductible.

At December 29, 2012, the Company has net operating loss carryforwards for U.S. federal and foreign tax purposes of $5.0 million and $19.1 million, respectively. The federal operating losses were generated by NeuCo and are subject to a full valuation allowance, and begin to expire in 2021. NeuCo files a separate U.S. federal tax return and none of its losses are available to offset the Company's consolidated taxable income. The foreign operating losses have an indefinite life, except for $0.3 million that will begin to expire in 2016.

ASC Topic 740-10 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740-10 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aggregate changes in the balances of gross unrecognized tax benefits were as follows (in thousands):

	December 29, 2012	December 31, 2011
Balance at beginning of period	$ 943	$ 180
Additions for tax positions taken during prior years	2,344	833
Additions for tax positions taken in current year		110
Settlements with tax authorities	(255)	(180)
Balance at end of the period	$ 3,032	$ 943

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. A number of years may elapse before an uncertain tax position, for which the Company has unrecognized tax benefits, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes that its unrecognized tax benefits reflect the most likely outcome. The Company adjusts these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances. At the end of fiscal 2012, the Company had $0.2 million of interest on its unrecognized tax benefit balance. The Company reports accrued interest and penalties related to unrecognized tax benefits in income tax expense. Settlement of any particular position could require the use of cash. Of the total $3.0 million balance at the end of fiscal 2012, a favorable resolution would result in $0.7 million being recognized as a reduction to the effective income tax rate in the period of resolution and the remaining $2.3 million being recorded as a deferred tax liability. It is reasonably likely that all of the approximately $3.0 million of unrecognized tax benefits will reverse within the next twelve months. Of the $3.0 million, $0.7 million relates to the possible resolution of federal and state examinations and $2.3 million relates to a tax accounting method change that the Company intends to file for which approval is automatic.

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's major taxing jurisdiction is the United States. The Company is no longer subject to U.S. federal examinations by the Internal Revenue Service for years before fiscal 2009. In fiscal 2011, the Internal Revenue Service began an examination of the Company's fiscal 2009 U.S. federal tax return. In the fourth quarter of fiscal 2012, the examination was expanded to include fiscal 2010, the transition period ended January 1, 2011, and fiscal 2011. As of December 31, 2012, the Company was considering settlement options and expects resolution of all periods under examination in fiscal 2013. Also during fiscal 2012, the HM Revenue and Customs completed their review of the Company's United Kingdom subsidiary's corporate tax returns for fiscal 2009 and fiscal 2010. The review resulted in additional tax for the fiscal 2010 tax year that was immaterial. The Company believes its reserves for uncertain tax positions with respect to these settlements are adequate.

The Company has not provided for deferred income taxes or foreign withholding taxes on undistributed earnings from its foreign subsidiaries of approximately $1.6 million as of December 29, 2012 because such earnings are considered to be indefinitely reinvested. The Company does not rely on these unremitted earnings as a source of funds for its domestic business as it expects to have sufficient cash flow in the U.S. to fund its U.S. operational and strategic needs. If the Company were to repatriate its foreign earnings that are indefinitely reinvested, it would accrue substantially no additional tax expense.

15. Related-Party Transactions

The Company made payments to shareholders of the Company who performed consulting services exclusively for the Company in the amounts of $5.4 million, $7.3 million, $0.7 million, and $6.8 million

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in fiscal 2012, fiscal 2011, the five-week transition period ended January 1, 2011, and fiscal 2010, respectively. These payments were to exclusive non-employee experts for consulting services performed for CRA's clients in the ordinary course of business.

16. Compensation Arrangements

In connection with a previous acquisition, CRA agreed to pay an award to certain employees of the acquired business if they achieved specific performance targets through fiscal 2012. Retention of amounts paid to the individual employees is contingent on their continued employment with CRA through 2016. The amount of the award, which was determined at the end of fiscal 2012, was approximately $6.2 million and is being expensed over the seven and a half year service period ending in December 2016. The Company expensed $1.5 million and $1.6 million for this award during fiscal 2012 and fiscal 2011, respectively. Subsequent to December 29, 2012, an additional award of approximately $4.3 million was granted to certain employees of the acquired business for future services. Payments under these awards will be made in the first quarter of fiscal 2013.

17. Transition Period Financial Information

On December 17, 2010, the Company's Board of Directors approved a change in the Company's fiscal year end from the last Saturday in November to the Saturday closest to December 31 of each year. Accordingly, the Company is presenting audited financial statements for the five-week transition period ended January 1, 2011. The following table provides certain unaudited comparative financial information of the same period of the prior year. The five-week periods ended January 1, 2011 and January 2, 2010 both included 35 days (in thousands, except per share data):

	5 Weeks Ended	
	January 1, 2011	**January 2, 2010**
	(audited)	**(unaudited)**
Statement of operations data:		
Net revenue	$ 22,250	$ 20,360
Gross profit	5,850	5,351
Loss from operations	(800)	(1,490)
Benefit for income taxes	288	1,232
Net loss attributable to CRA International, Inc.	(626)	(358)
Basic and diluted net loss per share attributable to CRA International, Inc.	$ (0.06)	$ (0.03)
Basic and diluted weighted average number of shares outstanding	10,567	10,639

	January 1, 2011	**January 2, 2010**
	(audited)	**(unaudited)**
Balance Sheet Data:		
Working capital	$ 100,533	$ 144,972
Total assets	367,365	408,363
Convertible debt	21,651	60,422
Total shareholders' equity	255,424	254,257

18. Restructuring Charges

During fiscal 2012, the Company incurred pre-tax restructuring expenses of $6.7 million, of which approximately $5.4 million was for termination benefits, facility-related charges, asset write-downs and

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other charges in connection with the plan committed to by the Company's management during the third quarter of fiscal 2012 to eliminate and restructure selected practice areas and reduce selling, general and administrative costs. In connection with this plan, the Company eliminated its Chemicals practice and closed its Middle East operations. These restructuring actions, along with the repositioning of other select underperforming practice areas, resulted in the reduction of more than 60 consulting positions. Commensurate with these consulting staff reductions, the Company also took significant actions to lower its selling, general and administrative costs by reducing the Company's administrative staff, eliminating excess office space capacity, better rationalizing remaining office space, and lowering administrative spending, particularly related to outside contractors and professional fees. These restructuring actions were designed to intensify the focus of the Company's portfolio, increase the cohesiveness of its services and improve its margins and profitability. The majority of these actions occurred during the third quarter of fiscal 2012, and the remainder was completed during the fourth quarter of fiscal 2012.

Additionally, during fiscal 2012, the Company entered into an agreement with the landlord of its London, England office to surrender the lease of one of the three floors it leased in the office building in London. Under this agreement, the Company surrendered its lease of this floor on June 30, 2012, instead of on the lease's original termination date of October 2, 2016, and paid the landlord approximately $1.2 million in connection with the surrender. In connection with this surrender, the Company incurred pre-tax restructuring charges of $1.7 million, which included the $1.2 million surrender charge and approximately $0.5 million of fixed asset write-offs and other charges or offsets. During fiscal 2012, the Company also recorded pre-tax restructuring credits of approximately $0.4 million related primarily to adjustments to its leased office space in Houston, TX and Chicago, IL.

Of the $6.7 million of restructuring charges recorded during fiscal 2012, approximately $3.8 million was charged to cost of sales, $1.5 million was charged to selling, general and administrative expenses, and $1.4 million was charged to depreciation and amortization expense.

During fiscal 2011, the Company incurred pre-tax expenses of $1.0 million associated principally with leased office space at its Houston, TX office. The Company recorded this expense in selling, general and administrative expenses for a change in the estimate of the future minimum lease payments and related exit costs through the end of the remaining lease term, net of expected future sublease rental income measured at fair value. This estimated expense required management to make assumptions regarding the estimate of the duration of future vacancy periods, the amount and timing of future settlement payments, and the amount and timing of potential sublease income.

Table of Contents

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The restructuring expenses and reserve balance are as follows as of December 29, 2012 and December 31, 2011 (in thousands):

	Office Vacancies	Employee Workforce Reduction	Total Restructuring
Balance at January 1, 2011	$ 4,476	$ 951	$ 5,427
Charges incurred during fiscal 2011	1,020		1,020
Amounts paid, net of amounts received, during fiscal 2011	(1,741)	(657)	(2,398)
Non-cash adjustments and effect of foreign currency translation during fiscal 2011	(18)	(294)	(312)
Balance at December 31, 2011	$ 3,737	$	$ 3,737
Charges incurred during fiscal 2012	2,110	4,618	6,728
Amounts paid, net of amounts received, during fiscal 2012	(3,514)	(3,718)	(7,232)
Non-cash adjustments and effect of foreign currency translation during fiscal 2012	(227)	(27)	(254)
Balance at December 29, 2012	$ 2,106	$ 873	$ 2,979

The $3.0 million restructuring liability as of December 29, 2012 is expected to be paid during the period from fiscal 2013 through the end of the third quarter of fiscal 2018.

On the accompanying balance sheet as of December 29, 2012, the reserve balance of $3.0 million was classified as follows: $1.3 million in "deferred rent and other non-current liabilities", $0.9 million in "accrued expenses", and $0.8 million in "current portion of deferred rent".

19. Quarterly Financial Data (Unaudited)

	Quarter Ended			
	March 31, 2012	June 30, 2012	September 29, 2012	December 29, 2012
	(In thousands, except per share data)			
Revenues	$ 69,132	$ 67,813	$ 65,912	$ 67,533
Gross profit	22,645	22,365	19,737	23,262
Income (loss) from operations	3,306	2,808	1,035	(64,959)
Income (loss) before (provision) benefit for income taxes	3,253	2,695	1,016	(64,987)
Net income (loss)	436	773	(706)	(53,346)
Net (income) loss attributable to noncontrolling interest, net of tax	83	(54)	(38)	(138)
Net income (loss) attributable to CRA International, Inc.	519	719	(744)	(53,484)
Basic net income (loss) per share	$ 0.05	$ 0.07	$ (0.07)	$ (5.33)
Diluted net income (loss) per share	$ 0.05	$ 0.07	$ (0.07)	$ (5.33)
Weighted average number of shares outstanding:				
Basic	10,316	10,242	10,084	10,027
Diluted	10,493	10,381	10,084	10,027

CRA INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quarter Ended			
	April 2, 2011	July 2, 2011	October 1, 2011	December 31, 2011
	(In thousands, except per share data)			
Revenues	$ 78,607	$ 80,641	$ 71,007	$ 74,973
Gross profit	27,047	26,910	24,436	27,452
Income from operations	7,920	6,970	6,214	7,960
Income before provision for income taxes	7,464	6,764	5,958	7,897
Net income	4,461	4,036	3,898	4,550
Net (income) loss attributable to noncontrolling interest, net of tax	(26)	271	(238)	(101)
Net income attributable to CRA International, Inc.	4,435	4,307	3,660	4,449
Basic net income per share	$ 0.42	$ 0.40	$ 0.35	$ 0.43
Diluted net income per share	$ 0.41	$ 0.40	$ 0.34	$ 0.42
Weighted average number of shares outstanding:				
Basic	10,613	10,650	10,557	10,399
Diluted	10,798	10,820	10,701	10,636

Earnings per share is calculated for each period, and the sum of the four quarters may not equal the full year amount.

20. Subsequent Event

On January 31, 2013, the Company announced that an approximate 40-person litigation consulting team has joined the Company, effective February 1, 2013. Under an agreement to hire the team, CRA accelerated the previously announced start dates of certain key personnel from May 2013. Under the terms of the transaction, CRA acquired certain intangible assets, accounts receivable, and certain client projects currently underway. The allocation of the purchase price for the acquisition will be finalized as CRA receives other information relevant to the acquisition and completes its analysis of other transaction-related costs.