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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 29, 2013

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-24049

**CRA International, Inc.**

(Exact name of registrant as specified in its charter)

**Massachusetts**

(State or other jurisdiction of  
incorporation or organization)

**04-2372210**

(I.R.S. Employer Identification No.)

**200 Clarendon Street, Boston, MA**  
(Address of principal executive offices)

**02116-5092**  
(Zip Code)

**(617) 425-3000**

(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐  
(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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 6, 2013
Common Stock, no par value per share	10,178,364 shares

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**CRA International, Inc.**

**INDEX**

**PART I. FINANCIAL INFORMATION**

ITEM 1.	Financial Statements . . . . .	3
	Condensed Consolidated Income Statements (unaudited)—Quarters Ended June 29, 2013 and June 30, 2012 and the Fiscal Year to Date Periods Ended June 29, 2013 and June 30, 2012 . . . . .	3
	Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited)—Quarters Ended June 29, 2013 and June 30, 2012 and the Fiscal Year to Date Periods Ended June 29, 2013 and June 30, 2012 . . . . .	4
	Condensed Consolidated Balance Sheets (unaudited)—June 29, 2013 and December 29, 2012 . . . . .	5
	Condensed Consolidated Statements of Cash Flows (unaudited)—Fiscal Year to Date Periods Ended June 29, 2013 and June 30, 2012 . . . . .	6
	Condensed Consolidated Statement of Shareholders' Equity (unaudited)— Fiscal Year to Date Period Ended June 29, 2013 . . . . .	7
	Notes to Condensed Consolidated Financial Statements (Unaudited) . . . . .	8
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations . . . . .	17
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk . . . . .	25
ITEM 4.	Controls and Procedures . . . . .	26

**PART II. OTHER INFORMATION**

ITEM 1.	Legal Proceedings . . . . .	27
ITEM 1A.	Risk Factors . . . . .	27
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds . . . . .	36
ITEM 3.	Defaults Upon Senior Securities . . . . .	36
ITEM 4.	Mine Safety Disclosures . . . . .	36
ITEM 5.	Other Information . . . . .	36
ITEM 6.	Exhibits . . . . .	37
Signatures . . . . .		38

## PART I. FINANCIAL INFORMATION

### ITEM 1. Financial Statements

#### CRA International, Inc.

#### Condensed Consolidated Income Statements (unaudited)

(In thousands, except per share data)

	Quarter Ended		Fiscal Year to Date Period Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Revenues . . . . .	\$65,203	\$67,813	\$128,333	\$136,945
Costs of services . . . . .	45,042	45,448	87,057	91,935
Gross profit . . . . .	20,161	22,365	41,276	45,010
Selling, general and administrative expenses . . . . .	15,380	16,924	31,180	34,791
Depreciation and amortization . . . . .	1,611	2,633	3,152	4,105
Income from operations . . . . .	3,170	2,808	6,944	6,114
Interest income . . . . .	21	64	82	130
Interest expense . . . . .	(175)	(79)	(242)	(159)
Other income (expense), net . . . . .	352	(98)	(39)	(137)
Income before provision for income taxes . . . . .	3,368	2,695	6,745	5,948
Provision for income taxes . . . . .	(2,017)	(1,922)	(2,559)	(4,739)
Net income . . . . .	1,351	773	4,186	1,209
Net (income) loss attributable to noncontrolling interest, net of tax . . . . .	58	(54)	192	29
Net income attributable to CRA International, Inc. . . . .	<u>\$ 1,409</u>	<u>\$ 719</u>	<u>\$ 4,378</u>	<u>\$ 1,238</u>
Net income per share attributable to CRA International, Inc:				
Basic . . . . .	<u>\$ 0.14</u>	<u>\$ 0.07</u>	<u>\$ 0.43</u>	<u>\$ 0.12</u>
Diluted . . . . .	<u>\$ 0.14</u>	<u>\$ 0.07</u>	<u>\$ 0.43</u>	<u>\$ 0.12</u>
Weighted average number of shares outstanding:				
Basic . . . . .	<u>10,100</u>	<u>10,242</u>	<u>10,085</u>	<u>10,279</u>
Diluted . . . . .	<u>10,188</u>	<u>10,381</u>	<u>10,174</u>	<u>10,439</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited)**  
*(In thousands)*

	Quarter Ended		Fiscal Year to Date Period Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income . . . . .	\$1,351	\$ 773	\$ 4,186	\$1,209
Other comprehensive income (loss):				
Foreign currency translation adjustments . . . . .	128	(1,410)	(1,329)	307
Comprehensive income (loss) . . . . .	1,479	(637)	2,857	1,516
Less: comprehensive (income) loss attributable to noncontrolling interest . . . . .	58	(54)	192	29
Comprehensive income (loss) attributable to CRA International, Inc. . . . .	<u>\$1,537</u>	<u>\$ (691)</u>	<u>\$ 3,049</u>	<u>\$1,545</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Balance Sheets (unaudited)**  
*(In thousands, except share data)*

	June 29, 2013	December 29, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 16,333	\$ 55,451
Accounts receivable, net of allowances of \$9,194 at June 29, 2013 and \$9,459 at December 29, 2012 . . . . .	47,094	56,083
Unbilled services . . . . .	29,069	21,187
Prepaid expenses and other assets . . . . .	18,548	23,001
Deferred income taxes . . . . .	15,034	15,955
Total current assets . . . . .	126,078	171,677
Property and equipment, net . . . . .	17,297	17,980
Goodwill . . . . .	75,273	70,765
Intangible assets, net of accumulated amortization of \$7,553 at June 29, 2013 and \$7,122 at December 29, 2012 . . . . .	5,120	1,834
Deferred income taxes, net of current portion . . . . .	5,157	8,083
Other assets . . . . .	55,162	21,671
Total assets . . . . .	<u>\$284,087</u>	<u>\$292,010</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 13,170	\$ 9,766
Accrued expenses . . . . .	32,336	45,305
Deferred revenue and other liabilities . . . . .	6,752	6,748
Deferred income taxes . . . . .	262	1,145
Current portion of deferred rent . . . . .	2,411	2,268
Current portion of debt obligation under credit agreement . . . . .	5,143	—
Current portion of notes payable . . . . .	702	691
Current portion of deferred compensation . . . . .	89	3,287
Total current liabilities . . . . .	60,865	69,210
Notes payable, net of current portion . . . . .	997	1,007
Deferred rent and other non-current liabilities . . . . .	4,224	5,608
Deferred compensation and other non-current liabilities . . . . .	206	2,676
Deferred income taxes, net of current portion . . . . .	1,322	1,275
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; none issued and outstanding . . . . .	—	—
Common stock, no par value; 25,000,000 shares authorized; 10,110,453 shares and 10,057,448 shares issued and outstanding at June 29, 2013 and December 29, 2012, respectively . . . . .	94,428	93,174
Receivables from shareholders . . . . .	—	(120)
Retained earnings . . . . .	126,988	122,610
Accumulated other comprehensive loss . . . . .	(5,717)	(4,388)
Total CRA International, Inc. shareholders' equity . . . . .	215,699	211,276
Noncontrolling interest . . . . .	774	958
Total shareholders' equity . . . . .	<u>216,473</u>	<u>212,234</u>
Total liabilities and shareholders' equity . . . . .	<u>\$284,087</u>	<u>\$292,010</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Statements of Cash Flows (unaudited)**  
*(In thousands)*

	<b>Fiscal Year to Date Period Ended</b>	
	<b>June 29, 2013</b>	<b>June 30, 2012</b>
<b>Operating activities:</b>		
Net income . . . . .	\$ 4,186	\$ 1,209
Adjustments to reconcile net income to net cash used in operating activities, net of effect of acquired businesses:		
Depreciation and amortization . . . . .	3,201	2,821
Loss on disposal of property and equipment . . . . .	—	1,160
Deferred rent . . . . .	(1,193)	(1,920)
Deferred income taxes . . . . .	309	266
Share-based compensation expenses . . . . .	1,321	2,479
Excess tax benefits from share-based compensation . . . . .	(5)	(38)
Accounts receivable allowances . . . . .	(64)	5,622
Changes in operating assets and liabilities:		
Accounts receivable . . . . .	17,474	8,051
Unbilled services . . . . .	(8,160)	(16,948)
Prepaid expenses and other assets . . . . .	(26,488)	(2,847)
Accounts payable, accrued expenses, and other liabilities . . . . .	(17,321)	(26,862)
Net cash used in operating activities . . . . .	(26,740)	(27,007)
<b>Investing activities:</b>		
Consideration paid for acquisitions, net . . . . .	(15,591)	—
Purchase of property and equipment . . . . .	(1,971)	(1,504)
Purchase of investments . . . . .	—	(9,494)
Sale of investments . . . . .	—	18,994
Collections on notes receivable . . . . .	14	14
Net cash provided by (used in) investing activities . . . . .	(17,548)	8,010
<b>Financing activities:</b>		
Issuance of common stock, principally stock option exercises . . . . .	207	575
Borrowings under line of credit . . . . .	17,320	—
Repayments under line of credit . . . . .	(12,177)	—
Tax withholding payments reimbursed by restricted shares . . . . .	(214)	(732)
Excess tax benefits from share-based compensation . . . . .	5	38
Repurchase of common stock . . . . .	—	(5,620)
Net cash provided by (used in) financing activities . . . . .	5,141	(5,739)
Effect of foreign exchange rates on cash and cash equivalents . . . . .	29	(63)
Net decrease in cash and cash equivalents . . . . .	(39,118)	(24,799)
Cash and cash equivalents at beginning of period . . . . .	55,451	61,587
Cash and cash equivalents at end of period . . . . .	<u>\$ 16,333</u>	<u>\$ 36,788</u>
<b>Supplemental cash flow information:</b>		
Cash paid for income taxes . . . . .	<u>\$ 1,287</u>	<u>\$ 8,686</u>
Cash paid for interest . . . . .	<u>\$ 137</u>	<u>\$ 111</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Condensed Consolidated Statement of Shareholders' Equity (unaudited)**  
*(In thousands, except share data)*

	Common Stock		Receivables from Shareholders	Retained Earnings	Accumulated Other Comprehensive Loss	CRA International, Inc. Shareholders' Equity	Noncontrolling Interest	Total Shareholders' Equity
	Shares Issued	Amount						
<b>BALANCE AT DECEMBER 29,</b>								
<b>2012</b> . . . . .	10,057,448	\$93,174	\$(120)	\$122,610	\$(4,388)	\$211,276	\$ 958	\$212,234
Net income . . . . .	—	—	—	4,378	—	4,378	(192)	4,186
Foreign currency translation adjustment . . . . .	—	—	—	—	(1,329)	(1,329)	—	(1,329)
Exercise of stock options . . . . .	13,389	207	—	—	—	207	—	207
Share-based compensation expense for employees . . . . .	—	1,262	—	—	—	1,262	—	1,262
Restricted share vesting . . . . .	49,280	—	—	—	—	—	—	—
Redemption of vested employee restricted shares for tax withholding . . . . .	(9,664)	(214)	—	—	—	(214)	—	(214)
Tax deficit on stock options and restricted shares vesting . . . . .	—	(60)	—	—	—	(60)	—	(60)
Payments received on notes receivable from shareholders . .	—	—	120	—	—	120	—	120
Share-based compensation expense for non-employees . . . . .	—	59	—	—	—	59	—	59
Equity transactions of noncontrolling interest . . . . .	—	—	—	—	—	—	8	8
<b>BALANCE AT JUNE 29, 2013</b> . . .	<u>10,110,453</u>	<u>\$94,428</u>	<u>\$ —</u>	<u>\$126,988</u>	<u>\$(5,717)</u>	<u>\$215,699</u>	<u>\$ 774</u>	<u>\$216,473</u>

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(Unaudited)**

**1. Description of Business**

CRA International, Inc. (the “Company,” or “CRA”) is a worldwide leading consulting services firm that applies advanced analytic techniques and in-depth industry knowledge to complex engagements for a broad range of clients. CRA offers its services in two broad areas: litigation, regulatory and financial consulting and management consulting. CRA operates in one business segment, which is consulting services. CRA operates its business under its registered trade name, Charles River Associates.

**2. Unaudited Interim Condensed Consolidated Financial Statements and Estimates**

The following financial statements included in this report are unaudited: the condensed consolidated income statements for the fiscal quarters and year to date periods ended June 29, 2013 and June 30, 2012, the condensed consolidated statements of comprehensive income (loss) for the fiscal quarters and year to date periods ended June 29, 2013 and June 30, 2012, the condensed consolidated balance sheet as of June 29, 2013, the condensed consolidated statements of cash flows for the fiscal year to date periods ended June 29, 2013 and June 30, 2012, and the condensed consolidated statement of shareholders’ equity for the fiscal year to date period ended June 29, 2013. In the opinion of management, these statements include all adjustments necessary for a fair presentation of CRA’s consolidated financial position, results of operations, and cash flows. The condensed consolidated balance sheet as of December 29, 2012 included in this report was derived from audited consolidated financial statements included in the Company’s Annual Report on Form 10-K that was filed on March 8, 2013.

The preparation of financial statements in conformity with generally accepted accounting principles in the U.S. (“U.S. GAAP”) requires management to make significant estimates and judgments that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates in these consolidated financial statements include, but are not limited to, accounts receivable allowances, revenue recognition on fixed price contracts, depreciation of property and equipment, share-based compensation, valuation of acquired intangible assets, impairment of long lived assets, goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, accrued compensation, accrued exit costs, and other accrued expenses. These items are monitored and analyzed by the Company for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. CRA bases its estimates on historical experience and various other assumptions that CRA believes to be reasonable under the circumstances. Actual results may differ from those estimates if CRA’s assumptions based on past experience or other assumptions do not turn out to be substantially accurate.

The condensed consolidated statements of cash flows for the fiscal year to date period ended June 30, 2012 has been adjusted to properly present the non-cash component related to the Company’s change in accounts receivable. This amount was previously presented on a net basis. This revision is not material to the Company’s consolidated financial statements taken as a whole.



**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**3. Principles of Consolidation**

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. In addition, the condensed consolidated financial statements include the Company's interest in NeuCo, Inc. ("NeuCo"). All significant intercompany accounts have been eliminated.

CRA's ownership interest in NeuCo constitutes control under U.S. GAAP for all periods presented. Therefore, NeuCo's financial results have been consolidated with CRA and the portion of NeuCo's results allocable to its other owners is shown as "noncontrolling interest."

NeuCo's interim reporting schedule is based on calendar month-ends, but its fiscal year end is the last Saturday of November. CRA's quarterly results could include a few days reporting lag between CRA's quarter end and the most recent financial statements available from NeuCo. CRA does not believe that the reporting lag will have a significant impact on CRA's consolidated income statements or financial condition.

**4. Recent Accounting Standards**

*Comprehensive Income*

In February 2013, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* ("ASU 2013-02"). ASU 2013-02 requires an entity disclose in a single location (either on the face of the financial statement that reports net income or in the notes) the effects of reclassifications out of accumulated other comprehensive income. For items reclassified out of accumulated other comprehensive income and into net income in their entirety, entities must disclose the effect of the reclassification on each affected net income item. For accumulated other comprehensive income reclassification items that are not reclassified in their entirety into net income, entities must provide a cross reference to other required U.S. GAAP disclosures. There is no change in the requirement to present the components of net income and other comprehensive income in either a single continuous statement or two separate consecutive statements. ASU 2013-02 does not change the items currently reported in other comprehensive income. ASU 2013-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012 and should be applied prospectively. The Company's adoption of ASU 2013-02 in the first quarter of fiscal 2013 had no impact on its financial position, results of operations, cash flows, or disclosures.

*Cumulative Translation Adjustment*

In March 2013, the FASB issued ASU No. 2013-05, *Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity* ("ASU 2013-05"). ASU 2013-05 addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. ASU 2013-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 and should be applied prospectively. Early adoption is permitted. The Company believes the adoption of ASU 2013-05 will have no impact on its financial position, results of operations, cash flows, or disclosures.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**5. Cash and Cash Equivalents**

Cash equivalents consist principally of funds holding only U.S. government obligations, and money market funds, with maturities of three months or less when purchased. As of June 29, 2013, 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 June 29, 2013, the financial institution has "stable" credit ratings and the Company has not experienced any losses related to such accounts. The short-term credit rating 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 Company's cash on deposit at this financial institution is fully liquid. The Company continually monitors the credit ratings of the institution.

The carrying amounts of the Company's instruments classified as cash equivalents are stated at amortized cost, which approximates fair value because of their short-term maturity.

**6. Prepaid Expenses and Other Assets, and Other Assets**

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

	<u>June 29, 2013</u>	<u>December 29, 2012</u>
Forgivable loans and term loans to employees and non-employee experts . . . . .	\$ 6,801	\$11,875
Income taxes receivable . . . . .	3,688	4,104
Prepaid insurance . . . . .	1,690	1,330
Subscriptions and licenses . . . . .	1,814	1,395
Prepaid rent and deposits . . . . .	1,272	968
Other . . . . .	3,283	3,329
Total . . . . .	<u>\$18,548</u>	<u>\$23,001</u>

Other assets consist of the following (in thousands):

	<u>June 29, 2013</u>	<u>December 29, 2012</u>
Forgivable loans and term loans to employees and non-employee experts . . . . .	\$51,102	\$17,364
Other . . . . .	4,060	4,307
Total . . . . .	<u>\$55,162</u>	<u>\$21,671</u>

In order to attract and retain highly skilled professionals, the Company may issue forgivable loans or term loans to employees and non-employee experts which are classified in "prepaid expenses and other assets" and "other assets" on the accompanying balance sheets as of June 29, 2013 and December 29, 2012. A portion of the term loans and forgivable loans are collateralized. The forgivable loans have terms that are generally between three and eight years. The principal amount of forgivable loans and accrued interest is forgiven by 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

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**6. Prepaid Expenses and Other Assets, and Other Assets (Continued)**

amount of the loans is recorded as compensation expense over the service period, which is consistent with the term of the loans. During the first half of fiscal 2013, the Company issued approximately \$38.0 million in forgivable loans to employees and non-employee experts for future service.

**7. Business Acquisition**

On January 31, 2013, the Company announced that an approximate 40-person litigation consulting team 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 fair values of the assets acquired and the liabilities assumed as part of the acquisition will be finalized as CRA receives other information relevant to the acquisition and completes its analysis of other transaction-related costs. The acquisition was not material. The acquisition has been accounted for under the purchase method of accounting, and the results of operations have been included in the accompanying income statements from the date of acquisition.

**8. Goodwill**

In accordance with Accounting Standards Codification (“ASC”) Topic 350, *“Intangibles—Goodwill and Other,”* goodwill is not subject to amortization, but is tested at least annually for impairment, or monitored more frequently, as necessary, if events or circumstances exist that would more likely than not reduce the Company’s fair value below its carrying amount. For the Company’s goodwill impairment analysis, the Company operates under one reporting unit. In performing the first step of the goodwill impairment testing and measurement process, the Company compares its entity-wide estimated fair value to its net book value to identify potential impairment. The Company estimates its entity-wide fair value utilizing its market capitalization, plus an appropriate control premium. The Company has utilized a control premium that considers appropriate industry, market and other pertinent factors, including indications of such premiums from data on recent acquisition transactions. If the Company determines through the impairment evaluation process that goodwill has been impaired, it would record the impairment charge in its consolidated income statements.

There were no impairment losses related to goodwill during each of the fiscal quarters ended June 29, 2013 and June 30, 2012, respectively, as there were no events or circumstances that would more likely than not reduce the Company’s fair value below its carrying amount. 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 non-cash goodwill impairment charge of \$71.4 million that the Company recorded in the fourth quarter of fiscal 2012.

The Company continues to monitor its market capitalization. If the Company’s market capitalization, plus an estimated control premium, is below its net book value for a period considered to be other-than-temporary, it is possible that the Company may be required to record an impairment of goodwill either as a result of the annual assessment that the Company conducts in the fourth quarter of each fiscal year, or in a future quarter if events or circumstances exist that would more likely than not reduce the Company’s fair value below its carrying amount. A non-cash goodwill impairment charge would have the effect of decreasing the Company’s earnings in such period.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**8. Goodwill (Continued)**

The changes in the carrying amount of goodwill during the fiscal year to date period ended June 29, 2013, are as follows (in thousands):

	<u>Goodwill, gross</u>	<u>Accumulated impairment losses</u>	<u>Goodwill, net</u>
Balance at December 29, 2012 . . . . .	\$142,658	\$(71,893)	\$70,765
Goodwill adjustments related to acquisition . . . . .	5,358	—	5,358
Goodwill adjustments related to NeuCo . . . . .	(63)	—	(63)
Effect of foreign currency translation . . . . .	(787)	—	(787)
Balance at June 29, 2013 . . . . .	<u>\$147,166</u>	<u>\$(71,893)</u>	<u>\$75,273</u>

The changes in the carrying amount of goodwill during the fiscal year to date period ended June 30, 2012, are as follows (in thousands):

	<u>Goodwill, gross</u>	<u>Accumulated impairment losses</u>	<u>Goodwill, net</u>
Balance at December 31, 2011 . . . . .	\$141,153	\$(499)	\$140,654
Effect of foreign currency translation . . . . .	377	—	377
Balance at June 30, 2012 . . . . .	<u>\$141,530</u>	<u>\$(499)</u>	<u>\$141,031</u>

**9. Accrued Expenses**

Accrued expenses consist of the following (in thousands):

	<u>June 29, 2013</u>	<u>December 29, 2012</u>
Compensation and related expenses . . . . .	\$25,659	\$40,329
Income taxes payable . . . . .	853	626
Other . . . . .	5,824	4,350
Total . . . . .	<u>\$32,336</u>	<u>\$45,305</u>

As of June 29, 2013 and December 29, 2012, approximately \$13.9 million and \$28.0 million of accrued bonuses were included above in “compensation and related expenses”.

**10. Credit Agreement**

On April 24, 2013, the Company entered into a new credit agreement that provides the Company with a \$125.0 million revolving credit facility and a \$15 million sublimit for the issuance of letters of credit. The Company may use the proceeds of the revolving credit loans to provide working capital and for other general corporate purposes. The Company may repay any borrowings under the revolving credit facility at any time, but no later than April 24, 2018. Upon entering into the agreement, the Company borrowed \$15.0 million under the revolving credit facility, which it used, together with cash on hand, to repay in full all indebtedness outstanding under the Company’s previous credit agreement,

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**10. Credit Agreement (Continued)**

whereupon such agreement was terminated. The Company also borrowed an additional \$2.3 million during the second quarter of fiscal 2013 under the multi-currency portion of the credit agreement. There was approximately \$5.1 million outstanding under this revolving line of credit as of June 29, 2013 as the Company repaid \$12.2 million during the second quarter of fiscal 2013. On July 23, 2013, the Company repaid an additional \$4.0 million, leaving approximately \$1.1 million outstanding, all of which was under the multi-currency portion of the agreement.

As of June 29, 2013, the amount available under this revolving line of credit is reduced by certain letters of credit outstanding, which amounted to \$0.5 million. Under the credit agreement, the Company is obligated to comply with various financial and non-financial covenants. As of June 29, 2013, the Company was in compliance with the credit agreement.

Borrowings under the revolving credit facility bear interest at a rate per annum of either (i) the adjusted base rate, as defined in the credit agreement, plus an applicable margin, which varies between 0.50% and 1.50% depending on the Company's total leverage ratio as determined under the credit agreement, or (ii) the adjusted eurocurrency rate, as defined in the credit agreement, plus an applicable margin, which varies between 1.50% and 2.50% depending on our total leverage ratio. The Company is required to pay a fee on the unused portion of the revolving credit facility at a rate per annum that varies between 0.25% and 0.375% depending on its total leverage ratio. Borrowings under the credit facility are secured by 100% of the stock of certain of the Company's U.S. subsidiaries and 65% of the stock of certain of its foreign subsidiaries, which represent approximately \$4.3 million in net assets as of June 29, 2013.

Under the credit agreement, the Company must comply with various financial and non-financial covenants. Compliance with these financial covenants is tested on a fiscal quarterly basis. Any indebtedness outstanding under the credit facility may become immediately due and payable upon the occurrence of stated events of default, including the Company's failure to pay principal, interest or fees or a violation of any financial covenant. The financial covenants require the Company to maintain a consolidated interest expense to adjusted consolidated EBITDA ratio of not more than 2.5 to 1.0 and to comply with a consolidated debt to adjusted consolidated EBITDA ratio of not more than 3.0 to 1.0. The non-financial covenant restrictions of the senior credit agreement include, but are not limited to, the Company's ability to incur additional indebtedness, engage in acquisitions or dispositions, and enter into business combinations. As of June 29, 2013, the Company was in compliance with the covenants of its credit agreement.

**11. Revenue Recognition**

CRA derives substantially all of its revenues from the performance of professional services. The contracts that CRA enters into and operates under specify whether the engagement will be billed on a time-and-materials or a fixed-price basis. Most of CRA's revenue is derived from time-and-materials service contracts. Revenues from time-and-materials service contracts are recognized as services are provided based upon hours worked and contractually agreed-upon hourly rates, as well as indirect fees based upon hours worked. Revenues from a 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 International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**11. Revenue Recognition (Continued)**

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):

	Quarter Ended		Fiscal Year to Date Period Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Reimbursable expenses . . . . .	\$9,750	\$8,817	\$17,408	\$17,114

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 ASC Topic 605-45, “Principal Agent Considerations.”

**12. Net Income per Share**

Basic net income per share represents net income 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 reconciliation of basic to diluted weighted average shares of common stock outstanding is as follows (in thousands):

	Quarter Ended		Fiscal Year to Date Period Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Basic weighted average shares outstanding . . . . .	10,100	10,242	10,085	10,279
Common stock equivalents:				
Stock options and restricted shares . . . . .	88	139	89	160
Diluted weighted average shares outstanding . . . . .	<u>10,188</u>	<u>10,381</u>	<u>10,174</u>	<u>10,439</u>

For the second quarter and fiscal year to date period ended June 29, 2013, the anti-dilutive share based awards that were excluded from the calculation of common stock equivalents for purposes of computing diluted weighted average shares outstanding amounted to 1,065,240 and 1,103,932 shares, respectively. For the second quarter and fiscal year to date period ended June 30, 2012, certain share-based awards, which amounted to 1,190,676 and 1,214,086 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 respective period.

**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

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

On July 6, 2010, the Company announced that its Board of Directors approved a share repurchase program of up to \$5.0 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 the second quarter of fiscal 2012, the Company repurchased and retired 129,785 shares under this share repurchase program at an average price per share of \$19.83. During the first half of fiscal 2013, the Company did not repurchase any shares of its common stock under this program. There is approximately \$3.6 million available for future repurchases under this program as of June 29, 2013. The Company records the retirement of its repurchased stock as a reduction to common stock.

**13. Income Taxes**

The Company's effective income tax rates were 59.9% and 71.3% for the second quarters of fiscal 2013 and fiscal 2012, respectively. The effective tax rates for each of these periods was higher than the Company's combined federal and state statutory tax rate primarily due to losses in foreign jurisdictions that provided no tax benefit. In addition, during the second quarter of fiscal 2013, the Company incurred a charge for a one-time tax adjustment of \$0.3 million. The Company's effective income tax rates were 37.9% and 79.7% for the fiscal year to date periods ended June 29, 2013 and June 30, 2012, respectively. The effective tax rate for the fiscal year to date period ended June 29, 2013 was lower than the Company's combined federal and state statutory tax rate primarily due to the favorable settlement of a tax matter in the first quarter of fiscal 2013, partially offset by a one-time tax adjustment recorded in the second quarter of fiscal 2013 and the effect of losses in foreign jurisdictions that provided no tax benefit in the first half of fiscal 2013. The effective tax rate for the fiscal year to date period ended June 30, 2012 was higher than the Company's combined federal and state statutory tax rate primarily due to losses in foreign jurisdictions that provided no tax benefit.

The Company has not provided for deferred income taxes or foreign withholding taxes on undistributed earnings from its foreign subsidiaries as of June 29, 2013 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 and availability from its U.S. credit lines 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.



**CRA International, Inc.**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(Unaudited)**

**14. Restructuring Charges**

The Company did not incur any restructuring charges during the second quarter of fiscal 2013. The restructuring reserve balance was as follows as of June 29, 2013 (in thousands):

	<u>Office Vacancies</u>	<u>Employee Workforce Reduction</u>	<u>Total Restructuring</u>
Balance at December 29, 2012 .....	\$2,106	\$ 873	\$ 2,979
Amounts paid during the fiscal year to date period ended June 29, 2013 .....	(451)	(716)	(1,167)
Adjustments and effect of foreign currency translation during the fiscal year to date period ended June 29, 2013 .....	(177)	(144)	(321)
Balance at June 29, 2013 .....	<u>\$1,478</u>	<u>\$ 13</u>	<u>\$ 1,491</u>

On the accompanying balance sheet as of June 29, 2013, the reserve balance of \$1.5 million was classified as follows: \$0.6 million in “deferred rent and other non-current liabilities,” and \$0.9 million in “current portion of deferred rent”.

During the second quarter of 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 an 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 in the second quarter of fiscal 2012, which included the surrender charge, approximately \$1.1 million of fixed asset write-offs and other charges or offsets. Additionally, during the second quarter of fiscal 2012, the Company recorded a pre-tax restructuring credit of \$0.4 million related to adjustments to its leased office space in Houston, TX for the reoccupation of a portion of that office space. Of the \$1.4 million of restructuring charges recorded during the second quarter of fiscal 2012, approximately \$0.2 million was charged to selling, general and administrative expenses and \$1.1 million was charged to depreciation and amortization expense.

The restructuring expenses for the fiscal year to date period ended June 30, 2012, and the reserve balance as of June 30, 2012, were as follows (in thousands):

	<u>Office Vacancies</u>
Balance at December 31, 2011 .....	\$ 3,737
Charges incurred in the fiscal year to date period ended June 30, 2012 ...	1,916
Amounts paid, net of amounts received, during the fiscal year to date period ended June 30, 2012 .....	(2,185)
Non-cash adjustments during the fiscal year to date period ended June 30, 2012 .....	(560)
Balance at June 30, 2012 .....	<u>\$ 2,908</u>



## **ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Statements**

Except for historical facts, the statements in this quarterly report are forward-looking statements. Forward-looking statements are merely our current predictions of future events. These statements are inherently uncertain, and actual events could differ materially from our predictions. Important factors that could cause actual events to vary from our predictions include those discussed below under the heading "Risk Factors." We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to review carefully the risk factors described in this quarterly report and in the other documents that we file with the Securities and Exchange Commission, or SEC. You can read these documents at [www.sec.gov](http://www.sec.gov).

Our principal internet address is [www.crai.com](http://www.crai.com). Our website provides a link to a third-party website through which our annual, quarterly, and current reports, and amendments to those reports, are available free of charge. We believe these reports are made available as soon as reasonably practicable after we file them electronically with, or furnish them to, the SEC. We do not maintain or provide any information directly to the third-party website, and we do not check its accuracy.

Our website also includes information about our corporate governance practices. The Investor Relations page of our website provides a link to a web page where you can obtain a copy of our code of ethics applicable to our principal executive officer, principal financial officer, and principal accounting officer.

### **Critical Accounting Policies and Significant Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, as well as the related disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates in these condensed consolidated financial statements include, but are not limited to, accounts receivable allowances, revenue recognition on fixed price contracts, depreciation of property and equipment, share-based compensation, valuation of acquired intangible assets, impairment of long lived assets, goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, accrued compensation, accrued exit costs, and other accrued expenses. These items are monitored and analyzed by management for changes in facts and circumstances, and material changes in these estimates could occur in the future. Changes in estimates are recorded in the period in which they become known. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from our estimates if our assumptions based on past experience or our other assumptions do not turn out to be substantially accurate.

We have described our significant accounting policies in Note 1 to our consolidated financial statements included in our annual report on Form 10-K for fiscal 2012. We have reviewed our accounting policies, identifying those that we believe to be critical to the preparation and understanding of our consolidated financial statements in the list set forth below. See the disclosure under the heading "Critical Accounting Policies" in Item 7 of Part II of our annual report on Form 10-K for fiscal 2012 for a detailed description of these policies and their potential effects on our results of operations and financial condition.

- Revenue recognition and accounts receivable allowances
- Share-based compensation expense

- Valuation of goodwill and other intangible assets
- Accounting for income taxes

We did not adopt any changes in the second quarter of fiscal 2013 that had a material effect on these critical accounting policies nor did we make any changes to our accounting policies in the second quarter of fiscal 2013 that changed these critical accounting policies.

#### Recent Accounting Standards

See Note 4 to our condensed consolidated financial statements included in this quarterly report on Form 10-Q for a discussion of recent accounting standards.

#### Results of Operations—For the Quarter and Fiscal Year to Date Period Ended June 29, 2013, Compared to the Quarter and Fiscal Year to Date Period Ended June 30, 2012

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

	Quarter Ended		Fiscal Year to Date Period Ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Revenues . . . . .	100.0%	100.0%	100.0%	100.0%
Costs of services . . . . .	69.1	67.0	67.8	67.1
Gross profit . . . . .	30.9	33.0	32.2	32.9
Selling, general and administrative expenses . . . . .	23.6	25.0	24.3	25.4
Depreciation and amortization . . . . .	2.5	3.9	2.5	3.0
Income from operations . . . . .	4.9	4.1	5.4	4.5
Interest income . . . . .	0.0	0.1	0.1	0.1
Interest expense . . . . .	(0.3)	(0.1)	(0.2)	(0.1)
Other income (expense), net . . . . .	0.5	(0.1)	(0.0)	(0.1)
Income before provision for income taxes . . . . .	5.2	4.0	5.3	4.3
Provision for income taxes . . . . .	(3.1)	(2.8)	(2.0)	(3.5)
Net income . . . . .	2.1	1.1	3.3	0.9
Net (income) loss attributable to noncontrolling interest, net of tax . . . . .	0.1	(0.1)	0.1	0.0
Net income attributable to CRA International, Inc. . . . .	<u>2.2%</u>	<u>1.1%</u>	<u>3.4%</u>	<u>0.9%</u>

#### Quarter Ended June 29, 2013 Compared to the Quarter Ended June 30, 2012

**Revenues.** Revenues decreased \$2.6 million, or 3.8%, to \$65.2 million for the second quarter of fiscal 2013 from \$67.8 million for the second quarter of fiscal 2012. Our revenue decline was due primarily to mixed results within our portfolio, as the strong performance of some practices was offset by softness in other areas of the portfolio. Our revenue decline was primarily due to decreases in our management consulting business. Although management consulting started the quarter slowly, its practices experienced improvements in project backlog toward the end of the second quarter of fiscal 2013 that have continued into the third quarter of fiscal 2013. The decline in management consulting was partially offset by increases in litigation, regulatory, and financial consulting business in the latter part of the quarter, reflecting organic growth and increasing contributions from the new senior-level hires we welcomed to CRA during the latter part of fiscal 2012 and the first quarter of fiscal 2013.

NeuCo had a decrease in revenue of approximately \$0.4 million in the second quarter of fiscal 2013 as compared with the second quarter of fiscal 2012. Utilization decreased to 67% for the second quarter of fiscal 2013 from 70% for the second quarter of fiscal 2012. The decrease in revenue was partially offset by an increase in client reimbursable expenses, which are pass-through expenses that carry little to no margin.

Overall, revenues outside of the U.S. represented approximately 21% of total revenues for the second quarter of fiscal 2013, compared with approximately 25% of total revenues for the second quarter of fiscal 2012. Revenues derived from fixed-price engagements decreased to 14% of total revenues for the second quarter of fiscal 2013 compared with 16% for the second quarter of fiscal 2012. The decrease in revenues from fixed-price engagements as compared to the second quarter of fiscal 2012 was due primarily to a decrease in the percentage of our revenue related to our management consulting business, as the management consulting business typically has a higher concentration of fixed-price service contracts.

*Costs of Services.* Costs of services decreased by \$0.4 million, or 0.9%, to \$45.0 million for the second quarter of fiscal 2013 from \$45.4 million for the second quarter of fiscal 2012. The decrease in costs of services was due primarily to the restructuring actions we announced in the third quarter of fiscal 2012, which resulted in a decrease in compensation expense per employee and a decrease in employee consultant headcount from 511 as of June 30, 2012 to 475 as of June 29, 2013, partially offset by an increase in client reimbursable expenses of \$0.9 million. As a percentage of revenues, costs of services increased to 69.1% for the second quarter of fiscal 2013 from 67.0% for the second quarter of fiscal 2012 due primarily to the increase in client reimbursable expenses and the decrease in revenues.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased by \$1.5 million, or 9.1%, to \$15.4 million for the second quarter of fiscal 2013 from \$16.9 million for the second quarter of fiscal 2012. The primary contributors to this decrease were decreased rent and office operating expenses resulting from our reduction of leased office space in London, England and Boston, Massachusetts at the end of the second quarter and fourth quarter of fiscal 2012, respectively. Additionally, selling, general and administrative expenses included \$0.2 million of restructuring costs recorded in the second quarter of fiscal 2012 associated with the reduction of leased office space in our London, England office and adjustments to our leased office space in Houston, TX for the reoccupation of a portion of that office space. There were no restructuring charges recorded in selling, general and administrative expenses in the second quarter of fiscal 2013.

Furthermore, decreases in compensation expense, professional fees, and outside consultant charges for the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012 resulted from the restructuring actions we announced in the third quarter of fiscal 2012. Partially offsetting these decreases was an increase in commissions to non-employee experts of \$0.7 million in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012.

As a percentage of revenues, selling, general and administrative expenses decreased to 23.6% for the second quarter of fiscal 2013 from 25.0% for the second quarter of fiscal 2012, which was primarily due to the decrease in expenses discussed above in the second quarter of fiscal 2013 as compared with the second quarter of fiscal 2012, partially offset by the increase in commissions to non-employee experts from 1.9% of revenues for the second quarter of fiscal 2012 to 3.0% of revenues for the second quarter of fiscal 2013.

*Depreciation and Amortization.* Depreciation and amortization decreased by \$1.0 million, or 38.8%, to \$1.6 million for the second quarter of fiscal 2012 from \$2.6 million for the second quarter of fiscal 2012. The decrease was due primarily to approximately \$1.1 million related to the write-off of unamortized leaseholds and other costs associated with restructuring costs recorded in the second quarter of fiscal 2012 for the reduction of leased office space in our London, England office.

*Interest Expense.* Interest expense increased by \$96,000 to \$175,000 for the second quarter of fiscal 2013 from \$79,000 for the second quarter of fiscal 2012. The increase was primarily due to interest expense related to the new credit agreement we entered into on April 24, 2013 that provides us with a \$125.0 million revolving credit facility, under which had approximately \$5.1 million outstanding as of June 29, 2013. On July 23, 2013, we repaid \$4.0 million of this amount.

*Other Income (Expense), Net.* Other income (expense), net changed by \$450,000 to income of \$352,000 for the second quarter of fiscal 2013 from expense of \$98,000 for the second quarter of fiscal 2012. Other income (expense), net consists primarily of foreign currency exchange transaction gains and losses. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies including the Euro and the British Pound. Additionally, our new multi-currency facility that we entered into on April 24, 2013 allows us to minimize such foreign exchange exposures.

*Provision for Income Taxes.* The income tax provision was \$2.0 million, and the effective tax rate was 59.9%, for the second quarter of fiscal 2013 compared to \$1.9 million and 71.3% for the second quarter of fiscal 2012. The effective tax rate in each of these periods was higher than our combined federal and state statutory tax rate primarily due to losses in foreign jurisdictions that provided no tax benefit. In addition, during the second quarter of fiscal 2013, we incurred a charge for a one-time tax adjustment of \$0.3 million.

*Net (Income) Loss Attributable to Noncontrolling Interest, Net of Tax.* Our ownership interest in NeuCo constitutes control under U.S GAAP. As a result, NeuCo's financial results are consolidated with ours, and allocations of the noncontrolling interest's share of NeuCo's net income result in deductions to our net income, while allocations of the noncontrolling interest's share of NeuCo's net loss result in additions to our net income. Our ownership interest in NeuCo is 55.89%. The results of operations of NeuCo allocable to its other owners was a net loss of \$58,000 for the second quarter of fiscal 2013 and a net income of \$54,000 for the second quarter of fiscal 2012.

*Net Income Attributable to CRA International, Inc.* Net income attributable to CRA International, Inc. increased by \$0.7 million to net income of \$1.4 million for the second quarter of fiscal 2013 from net income of \$0.7 million for the second quarter of fiscal 2012. The net income per diluted share was \$0.14 per share for the second quarter of fiscal 2013, compared to \$0.07 of net income per share for the second quarter of fiscal 2012. Diluted weighted average shares outstanding decreased by approximately 193,000 shares to approximately 10,188,000 shares for the second quarter of fiscal 2013 from approximately 10,381,000 shares for the second quarter of fiscal 2012. The decrease in diluted weighted average shares outstanding was primarily due to repurchases of common stock since the second quarter of fiscal 2012 and our lower average stock price in the second quarter of fiscal 2013 as compared to the second quarter of fiscal 2012, offset in part by an increase as a result of shares of restricted stock that have vested or that have been issued, and stock options that have been exercised since the second quarter of fiscal 2012.

#### **Fiscal Year to Date Period Ended June 29, 2013 Compared to the Fiscal Year to Date Period Ended June 30, 2012**

*Revenues.* Revenues decreased by \$8.6 million, or 6.3%, to \$128.3 million for the fiscal year to date period ended June 29, 2013 from \$136.9 million for the fiscal year to date period ended June 30, 2012. Our revenue decline was due primarily to mixed results within our portfolio, as the strong performance of some practices was offset by softness in other areas of the portfolio. Our revenue decline was primarily due to decreases in our management consulting business. Although management consulting started fiscal 2013 slowly, its practices experienced improvements in project backlog toward the end of the second quarter of fiscal 2013 that have continued into the third quarter of fiscal 2013.

The decline in management consulting was partially offset by increases in litigation, regulatory, and financial consulting business in the latter part of the second quarter of fiscal 2013, reflecting organic growth and increasing contributions from the new senior-level hires we welcomed to CRA during the latter part of fiscal 2012 and the first quarter of fiscal 2013. NeuCo had a decrease in revenues of \$0.5 million in the first half of fiscal 2013 as compared to the first half of fiscal 2012. Utilization decreased to 67% for the first half of fiscal 2013 from 69% for the first half of fiscal 2012. The decrease in revenue was partially offset by an increase in client reimbursable expenses, which are pass-through expenses that carry little to no margin.

Overall, revenues outside of the U.S. represented approximately 23% of total revenues for the fiscal year to date period ended June 29, 2013, compared with approximately 22% of total revenues for the fiscal year to date period ended June 30, 2012. Revenues derived from fixed-price engagements increased to 14% of total revenues for the fiscal year to date period ended June 29, 2013 compared with 13% for the fiscal year to date period ended June 30, 2012.

*Costs of Services.* Costs of services decreased \$4.9 million, or 5.3%, to \$87.1 million for the fiscal year to date period ended June 30, 2012 from \$91.9 million for the fiscal year to date period ended June 30, 2012. The decrease in costs of services was due primarily to the restructuring actions we announced in the third quarter of fiscal 2012, which resulted in a decrease in employee consultant headcount from 511 as of June 30, 2012 to 475 as of June 29, 2013, partially offset by an increase in client reimbursable expenses of \$0.3 million.

As a percentage of revenues, costs of services increased to 67.8% for the first half of fiscal 2013 from 67.1% for the first half of fiscal 2012 due primarily to the decrease in revenue in the first half of fiscal 2013 compared with the first half of fiscal 2012, as the decrease in revenue outpaced the decrease in costs of services.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses decreased by \$3.6 million, or 10.4%, to \$31.2 million for the fiscal year to date period ended June 29, 2013 from \$34.8 million for the fiscal year to date period ended June 30, 2012. The primary contributors to this decrease were decreased rent and office operating expenses resulting from our reduction of leased office space in London, England and Boston, Massachusetts at the end of the second quarter and fourth quarter of fiscal 2012, respectively. Additionally, selling, general and administrative expenses for the first half of fiscal 2012 included \$0.8 million of restructuring costs associated principally with the reduction of leased office space in our London, England office and adjustments to our leased office space in Houston, TX. There were no restructuring charges recorded in selling, general and administrative expenses in the first half of fiscal 2013. Additionally, decreases in compensation expense, professional fees, and outside consultant charges for the first half of fiscal 2013 as compared to the first half of fiscal 2012 resulted from the restructuring actions we announced in the third quarter of fiscal 2012. Partially offsetting these decreases was an increase in commissions to non-employee experts of \$1.2 million in the first half of fiscal 2013 as compared to the first half of fiscal 2012.

As a percentage of revenues, selling, general and administrative expenses decreased to 24.3% for the fiscal year to date period ended June 29, 2013 from 25.4% for the fiscal year to date period ended June 30, 2012, which was primarily due to decreased rent and office operating expenses, professional fees, and outside consultant charges in the first half of fiscal 2013 as compared with the first half of fiscal 2012, partially offset by the increase in commissions to non-employee experts from 2.1% of revenues for the first half of fiscal 2012 to 3.2% of revenues for the first half of fiscal 2013.

*Depreciation and Amortization.* Depreciation and amortization decreased by \$1.0 million, or 23.2%, to \$3.2 million for the fiscal year to date period ended June 29, 2013 from \$4.1 million for the fiscal year to date period ended June 30, 2012 due primarily to approximately \$1.1 million related to



the write-off of unamortized leaseholds and other costs associated with restructuring costs recorded in the second quarter of fiscal 2012 for the reduction of leased office space in our London, England office.

*Interest Expense.* Interest expense increased by \$83,000 to \$242,000 for the fiscal year to date period ended June 29, 2013 from \$159,000 for the fiscal year to date period ended June 30, 2012. The increase was primarily due to interest expense related to the new credit agreement we entered into on April 24, 2013 that provides us with a \$125.0 million revolving credit facility, under which had approximately \$5.1 million outstanding as of June 29, 2013. On July 23, 2013, we repaid \$4.0 million of this amount.

*Other Income (Expense), Net.* Other income (expense), net changed by \$98,000 to expense of \$39,000 for the fiscal year to date period ended June 29, 2013 as compared to expense of \$137,000 for the fiscal year to date period ended June 30, 2012. Other income (expense), net consists primarily of foreign currency exchange transaction gains and losses. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies including the Euro and the British Pound. Additionally, our new multi-currency facility that we entered into on April 24, 2013 allows us to minimize such foreign exchange exposures.

*Provision for Income Taxes.* For the fiscal year to date period ended June 29, 2013 our income tax provision was \$2.6 million, and the effective tax rate was 37.9%, compared to \$4.7 million and an effective tax rate of 79.7% for the fiscal year to date period ended June 30, 2012. The effective tax rate for the fiscal year to date period ended June 29, 2013 was lower than our combined federal and state statutory tax rate primarily due to the favorable settlement of a tax matter in the first quarter of fiscal 2013, partially offset by a one-time tax adjustment recorded in the second quarter of fiscal 2013 and the effect of losses in foreign jurisdictions that provided no tax benefit in the first half of fiscal 2013. The effective tax rate for the fiscal year to date period ended June 30, 2012 was higher than our combined federal and state statutory tax rate primarily due to losses in foreign jurisdictions that provided no tax benefit.

*Net Loss Attributable to Noncontrolling Interest, Net of Tax.* Our ownership interest in NeuCo constitutes control under U.S. GAAP. As a result, NeuCo's financial results are consolidated with ours and allocations of the noncontrolling interest's share of NeuCo's net income result in deductions to our net income, while allocations of the noncontrolling interest's share of NeuCo's net loss result in additions to our net income. Our ownership interest in NeuCo is 55.89%. The results of operations of NeuCo allocable to its other owners was a net loss of \$192,000 for the fiscal year to date period ended June 29, 2013 and a net loss of \$29,000 for the fiscal year to date period ended June 30, 2012.

*Net Income Attributable to CRA International, Inc.* Net income attributable to CRA International, Inc. increased by \$3.1 million to net income of \$4.4 million for the fiscal year to date period ended June 29, 2013 from net income of \$1.2 million for the fiscal year to date period ended June 30, 2012. The diluted net income per share was \$0.43 per share for the fiscal year to date period ended June 29, 2013, compared to net income per share of \$0.12 per share for the fiscal year to date period ended June 30, 2012. Diluted weighted average shares outstanding decreased by approximately 265,000 shares to approximately 10,174,000 shares for the fiscal year to date period ended June 29, 2013 from approximately 10,439,000 shares for the fiscal year to date period ended June 30, 2012. The decrease in diluted weighted average shares outstanding was primarily due to repurchases of common stock and our lower average stock price in the first half of fiscal 2013 as compared to the first half of fiscal 2012, offset in part by an increase as a result of shares of restricted stock that have vested or that have been issued, and stock options that have been exercised since June 30, 2012.

## **Liquidity and Capital Resources**

### ***Fiscal Year to Date Period Ended June 29, 2013***

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

*General.* In the first half of fiscal 2013, cash and cash equivalents decreased by \$39.1 million. We completed the period with cash and cash equivalents of \$16.3 million and working capital (defined as current assets less current liabilities) of \$65.2 million. Of the total cash and cash equivalents of \$16.3 million at June 29, 2013, \$10.7 million was held within the U.S. The Company has sufficient sources of cash in the U.S. to fund U.S. cash requirements without the need to repatriate any funds.

As of June 29, 2013, a substantial portion of our cash accounts was concentrated at a single financial institution, which potentially exposes us to credit risks. The financial institution has “stable” credit ratings and its short-term credit rating is A-1 by Standard & Poor’s ratings services. We have not experienced any losses related to such accounts and we do not believe that there is significant risk of non-performance by the financial institution. Our cash on deposit at this financial institution is fully liquid and we continually monitor the credit ratings of such institution. A change in the credit worthiness of this financial institution could materially affect our liquidity and working capital.

*Sources and Uses of Cash.* During the first half of fiscal 2013, net cash used by operations was \$26.7 million. We had net income of \$4.2 million during the first half of fiscal 2013. During the first half of fiscal 2013, we issued approximately \$38.0 million in forgivable loans and advances to employees and non-employee experts and recorded \$6.0 million of related amortization of such amounts, which was the primary factor in the aggregate decrease in prepaid expenses and other assets of \$26.5 million during the first half of fiscal 2013. We paid out a majority of our fiscal 2012 performance bonuses during the first quarter of fiscal 2013, which was the primary factor in the aggregate decrease in accounts payable, accrued expenses, and other liabilities of \$17.3 million during the first half of fiscal 2013. These uses of cash were partially offset by a decrease in accounts receivable, including the change in accounts receivable allowances, of \$17.4 million, as a result of increased cash collections, which was partially offset by increases in unbilled services of \$8.2 million. Non-cash charges for the first half of fiscal 2013 included depreciation and amortization expense of \$3.2 million, share-based compensation expense of \$1.3 million, deferred income taxes of \$0.3 million, partially offset by decreased deferred rent of \$1.2 million.

During the fiscal year to date period ended June 29, 2013, net cash used by investing activities was \$17.5 million, which included \$15.6 million of net acquisition consideration payments and \$2.0 million for capital expenditures.

Net cash provided by financing activities during the first half of fiscal 2013 was \$5.1 million. On April 24, 2013, we entered into a new credit agreement and borrowed \$15.0 million under the revolving credit facility, which we used, together with cash on hand, to repay in full all indebtedness outstanding under the previous credit agreement, whereupon such agreement was terminated. During the second quarter of fiscal 2013, we borrowed an additional \$2.3 million under the multi-currency portion of the credit agreement. We repaid \$12.2 million during the second quarter of fiscal 2013. Partially offsetting the cash provided by financing activities was cash used in financing activities primarily for the redemption of \$0.2 million in vested employee restricted shares for tax withholdings, offset by \$0.2 million received upon the exercise of stock options.

### ***Indebtedness***

On April 24, 2013, we entered into a new credit agreement that provides us with a \$125.0 million revolving credit facility and a \$15 million sublimit for the issuance of letters of credit. We may use the

proceeds of the revolving credit loans to provide working capital and for other general corporate purposes. Generally, we may repay any borrowings under the revolving credit facility at any time, but must repay all borrowings no later than April 24, 2018. Upon entering into the agreement, we borrowed \$15.0 million under the revolving credit facility, which we used, together with cash on hand, to repay in full all indebtedness outstanding under the previous credit agreement, whereupon such agreement was terminated. We also borrowed an additional \$2.3 million during the second quarter of fiscal 2013 under the multicurrency portion of the credit agreement. There was approximately \$5.1 million outstanding under this revolving line of credit as of June 29, 2013 as the Company repaid \$12.2 million during the second quarter of fiscal 2013. On July 23, 2013, we repaid an additional \$4.0 million, leaving approximately \$1.1 million outstanding, all of which was under the multi-currency portion of the agreement.

Additionally, letters of credit in the aggregate amount of approximately \$0.4 million that had been issued under the previous credit agreement were deemed to be issued and outstanding under the new revolving credit facility. The amount available under this revolving line of credit is reduced by certain letters of credit outstanding, which amounted to \$0.5 million as of June 29, 2013.

Borrowings under the revolving credit facility bear interest at a rate per annum of either (i) the adjusted base rate, as defined in the credit agreement, plus an applicable margin, which varies between 0.50% and 1.50% depending on our total leverage ratio as determined under the credit agreement, or (ii) the adjusted eurocurrency rate, as defined in the credit agreement, plus an applicable margin, which varies between 1.50% and 2.50% depending on our total leverage ratio. We are required to pay a fee on the unused portion of the revolving credit facility at a rate per annum that varies between 0.25% and 0.375% depending on our total leverage ratio. Borrowings under the credit facility are secured by 100% of the stock of certain of our U.S. subsidiaries and 65% of the stock of certain of our foreign subsidiaries, which represent approximately \$4.3 million in net assets as of June 29, 2013.

Under our credit agreement, we must comply with various financial and non-financial covenants. Compliance with these financial covenants is tested on a fiscal quarterly basis. Any indebtedness outstanding under the credit facility may become immediately due and payable upon the occurrence of stated events of default, including our failure to pay principal, interest or fees or a violation of any financial covenant. The financial covenants require us to maintain a consolidated interest expense to adjusted consolidated EBITDA ratio of not more than 2.5 to 1.0 and to comply with a consolidated debt to adjusted consolidated EBITDA ratio of not more than 3.0 to 1.0. The non-financial covenant restrictions of our senior credit agreement include, but are not limited to, our ability to incur additional indebtedness, engage in acquisitions or dispositions, and enter into business combinations. As of June 29, 2013, we were in compliance with the covenants of our credit agreement.

#### ***Forgivable Loans and Term Loans***

In order to attract and retain highly skilled professionals, we may issue forgivable loans or term loans to employees and non-employee experts. A portion of the term loans and forgivable loans are collateralized. The forgivable loans have terms that are generally between three and eight years. The principal amount of forgivable loans and accrued interest is forgiven by us over the term of the loans, so long as the employee or non-employee expert continues employment or affiliation with us and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans is recorded as compensation expense over the service period, which is consistent with the term of the loans. During the first half of fiscal 2013, we issued approximately \$38.0 million in forgivable loans to employees and non-employee experts for future service.



### ***Business Acquisition***

On January 31, 2013, we announced that an approximate 40-person litigation consulting team had joined us, effective February 1, 2013. Under an agreement to hire the team, we accelerated the previously announced start dates of certain key personnel from May 2013. Under the terms of the transaction, we acquired certain intangible assets, accounts receivable, and certain client projects currently underway. The fair value of the assets acquired and the liabilities assumed as part of the acquisition will be finalized as CRA receives other information relevant to the acquisition and completes its analysis of other transaction-related costs. The acquisition was not material. The acquisition has been accounted for under the purchase method of accounting, and the results of operations have been included in the accompanying income statements from the date of acquisition.

As part of our business, we regularly evaluate opportunities to acquire other consulting firms, practices or groups or other businesses. In recent years, we have typically paid for acquisitions with cash, or a combination of cash and our common stock, and we may continue to do so in the future. To pay for an acquisition, we may use cash on hand, cash generated from our operations, borrowings under our revolving credit facility, or we may pursue other forms of financing. Our ability to secure short-term and long-term debt or equity financing in the future, including our ability to refinance our current senior loan agreement, will depend on several factors, including our future profitability, the levels of our debt and equity, restrictions under our existing line of credit with our bank, and the overall credit and equity market environments.

### ***Share Repurchases***

On July 6, 2010, we announced that our Board of Directors approved a share repurchase program of up to \$5.0 million of our 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 our common stock under this program. During the first half of fiscal 2013, we did not repurchase any shares of our common stock under this program. Approximately \$3.6 million is available for future repurchases under this program as of June 29, 2013. We will finance this program with available cash and cash from future operations. We may repurchase shares in open market purchases or in privately negotiated transactions in accordance with applicable insider trading and other securities laws and regulations. We expect to continue to repurchase shares under this program.

### **Factors Affecting Future Performance**

Part II, Item 1A of this quarterly report sets forth risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this quarterly report. If any of these risks, or any risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition, and results of operations could be adversely affected.

## **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

### ***Foreign Exchange Risk***

The majority of our operations are based in the U.S., and accordingly, the majority of our transactions are denominated in U.S. Dollars. However, we have foreign-based operations where transactions are denominated in foreign currencies and are subject to market risk with respect to fluctuations in the relative value of foreign currencies. Our primary foreign currency exposures relate to our short-term intercompany balances with our foreign subsidiaries and accounts receivable and cash valued in the United Kingdom in U.S. Dollars or Euros. Our primary foreign subsidiaries have functional currencies denominated in the British Pound and the Euro, and foreign denominated assets

and liabilities are re-measured each reporting period with any exchange gains and losses recorded in our consolidated income statements. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the U.S. Dollar and foreign currencies and the Euro and the British Pound. Holding all other variables constant, fluctuations in foreign exchange rates may impact reported revenues and expenses significantly, based on currency exposures at June 29, 2013. A hypothetical 10% movement in foreign exchange rates would have effected our income before provision for income taxes for the second quarter of fiscal 2013 by approximately \$0.1 million. However, actual gains and losses in the future could differ materially from this analysis based on the timing and amount of both foreign currency exchange rate movements and our actual exposure.

From time to time, we may use derivative instruments to manage the risk of exchange rate fluctuations. However, at June 29, 2013, we had no outstanding derivative instruments. We do not use derivative instruments for trading or speculative purposes.

#### *Interest Rate Risk*

We maintain an investment portfolio consisting mainly of commercial paper with maturities of three months or less when purchased. These held-to-maturity securities are subject to interest rate risk. However, a hypothetical change in the interest rate of 10% would not have a material impact to the fair values of these securities at June 29, 2013 primarily due to their short maturity.

### **ITEM 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that we record, process, summarize and report the information we must disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended, within the time periods specified in the SEC's rules and forms.

#### *Evaluation of Changes in Internal Control over Financial Reporting*

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we have determined that, during the second quarter of fiscal 2013, there were no changes in our internal control over financial reporting that have affected, or are reasonably likely to affect, materially our internal control over financial reporting.

#### *Important Considerations*

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

## **PART II. OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

None.

### **ITEM 1A. Risk Factors**

Our operations are subject to a number of risks. You should carefully read and consider the following risk factors, together with all other information in this report, in evaluating our business. If any of these risks, or any risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition, and results of operations could be adversely affected. If that happens, the market price of our common stock could decline, and you may lose all or part of your investment.

#### ***We depend upon key employees to generate revenue***

Our business consists primarily of the delivery of professional services, and, accordingly, our success depends heavily on the efforts, abilities, business generation capabilities, and project execution capabilities of our employee consultants. In particular, our employee consultants' personal relationships with our clients are a critical element in obtaining and maintaining client engagements. If we lose the services of any employee consultant or group of employee consultants, or if our employee consultants fail to generate business or otherwise fail to perform effectively, that loss or failure could adversely affect our revenues and results of operations. Our employee consultants generated engagements that accounted for approximately 78% and 84% of our revenues for each of the fiscal year to date periods ended June 29, 2013 and June 30, 2012, respectively. Our top five employee consultants generated approximately 19% and 18% of our revenues for each of the fiscal year to date periods ended June 29, 2013 and June 30, 2012, respectively.

We do not have non-competition agreements with a majority of our employee consultants, and they can terminate their relationships with us at will and without notice. The non-competition and non-solicitation agreements that we have with some of our employee consultants offer us only limited protection and may not be enforceable in every jurisdiction. In the event that an employee leaves, some clients may decide that they prefer to continue working with the employee rather than with us. In the event an employee departs and acts in a way that we believe violates the employee's non-competition or non-solicitation agreement, we will consider any legal remedies we may have against such person on a case-by-case basis. We may decide that preserving cooperation and a professional relationship with the former employee or clients that worked with the employee, or other concerns, outweigh the benefits of any possible legal recovery.

#### ***Deterioration of global economic conditions, global market and credit conditions, and regulatory and legislative changes affecting our clients, practice areas, or competitors could have an impact on our business***

Overall global economic conditions and global market and credit conditions in the industries we service can negatively impact the market for our services. These factors outside of our control and include the availability of credit, the costs and terms of borrowing, merger and acquisition activity, and general economic factors and business conditions.

Similarly, many of our clients are in highly regulated industries. Regulatory and legislative changes in these industries could also impact the market for our service offerings and could render our current service offerings obsolete, reduce the demand for our services, or impact the competition for consulting and expert services. For example, potential changes in the patent laws could have a significant impact on our intellectual property practice. We are not able to predict the positive or negative effects that

future events or changes to the U.S. or international business environment could have on our operations.

***Competition from other litigation, regulatory, financial, and management consulting firms could hurt our business***

The market for litigation, regulatory, financial, and management consulting services is intensely competitive, highly fragmented, and subject to rapid change. We may be unable to compete successfully with our existing competitors or with any new competitors. In general, there are few barriers to entry into our markets, and we expect to face additional competition from new entrants into the economic and management consulting industries. In the litigation, regulatory, and financial consulting markets, we compete primarily with other economic and financial consulting firms and individual academics. In the management consulting market, we compete primarily with other business and management consulting firms, specialized or industry-specific consulting firms, the consulting practices of large accounting firms, and the internal professional resources of existing and potential clients. Many of our competitors have national or international reputations as well as significantly greater personnel, financial, managerial, technical, and marketing resources than we do, which could enhance their ability to respond more quickly to technological changes, finance acquisitions, and fund internal growth. Some of our competitors also have a significantly broader geographic presence and resources than we do.

***Our failure to execute our business strategy or manage future growth successfully could adversely affect our revenues and results of operations***

Any failure on our part to execute our business strategy or manage future growth successfully could adversely affect our revenues and results of operations. In the future, we could open offices in new geographic areas, including foreign locations, and expand our employee base as a result of internal growth and acquisitions. Opening and managing new offices often requires extensive management supervision and increases our overall selling, general, and administrative expenses. Expansion creates new and increased management, consulting, and training responsibilities for our employee consultants. Expansion also increases the demands on our internal systems, procedures, and controls, and on our managerial, administrative, financial, marketing, and other resources. We depend heavily upon the managerial, operational, and administrative skills of our executive officers to manage our expansion and business strategy. New responsibilities and demands may adversely affect the overall quality of our work.

***Our business could suffer if we are unable to hire and retain additional qualified consultants as employees***

Our business continually requires us to hire highly qualified, highly educated consultants as employees. Our failure to recruit and retain a significant number of qualified employee consultants could limit our ability to accept or complete engagements and adversely affect our revenues and results of operations. Relatively few potential employees meet our hiring criteria, and we face significant competition for these employees from our direct competitors, academic institutions, government agencies, research firms, investment banking firms, and other enterprises. Many of these competing employers are able to offer potential employees greater compensation and benefits or more attractive lifestyle choices, career paths, or geographic locations than we can. Competition for these employee consultants has increased our labor costs, and a continuation of this trend could adversely affect our margins and results of operations.

***Our performance could be affected if employees and non-employee experts default on loans***

We utilize forgivable loans and term loans with some of our employees and non-employee experts, other than our executive officers, as a way to attract and retain them. A portion of the term loans and forgivable loans are collateralized. Defaults under these respective loans, as well as our inability to

collect on such loans should they become due, could have a material adverse effect on our consolidated income statements, financial condition and liquidity.

***We depend on our antitrust and mergers and acquisitions consulting business***

We derive a significant amount of our revenues from engagements related to antitrust and mergers and acquisitions activities. Any substantial reduction in the number or size of our engagements in these areas could adversely affect our revenues and results of operations. Adverse changes in general economic conditions, particularly conditions influencing the merger and acquisition activity of larger companies, could adversely affect engagements in which we assist clients in proceedings before the U.S. Department of Justice, the U.S. Federal Trade Commission, and various foreign antitrust authorities. For example, global economic recessions have resulted in, and may in the future result in, reduced merger and acquisition activity levels. Any of these reductions in activity level would adversely affect our revenues and results of operations.

***Maintaining our professional reputation is crucial to our future success***

Our ability to secure new engagements and hire qualified consultants as employees depends heavily on our overall reputation as well as the individual reputations of our employee consultants and principal non-employee experts. Because we obtain a majority of our new engagements from existing clients, any client that is dissatisfied with our performance on a single matter could seriously impair our ability to secure new engagements. Given the frequently high-profile nature of the matters on which we work, including work before and on behalf of government agencies, any factor that diminishes our reputation or the reputations of any of our employee consultants or non-employee experts could make it substantially more difficult for us to compete successfully for both new engagements and qualified consultants.

***We depend on our non-employee experts***

We depend on our relationships with our exclusive non-employee experts. For the fiscal year to date periods ended June 29, 2013 and June 30, 2012, five of our top exclusive non-employee experts generated engagements that accounted for approximately 15% and 8% of our revenues in those periods, respectively. We believe that these experts are highly regarded in their fields and that each offers a combination of knowledge, experience, and expertise that would be very difficult to replace. We also believe that we have been able to secure some engagements and attract consultants in part because we can offer the services of these experts. Most of these experts can limit their relationships with us at any time for any reason. These reasons could include affiliations with universities with policies that prohibit accepting specified engagements, termination of exclusive relationships, the pursuit of other interests, and retirement.

In many cases we seek to include restrictive covenant agreements in our agreements with our non-employee experts, which could include non-competition agreements, non-solicitation agreements and non-hire agreements. The limitation or termination of any of their relationships with us, or competition from any of them after these agreements expire, could harm our reputation, reduce our business opportunities and adversely affect our revenues and results of operations. These restrictive covenant agreements that we may have with some of our non-employee experts offer us only limited protection and may not be enforceable in every jurisdiction. In the event that non-employee experts leave, clients working with these non-employee experts may decide that they prefer to continue working with them rather than with us. In the event a non-employee expert departs and acts in a way that we believe violates the expert's restrictive covenant agreements, we will consider any legal and equitable remedies we may have against such person on a case-by-case basis. We may decide that preserving cooperation and a professional relationship with the former non-employee expert or clients that worked

with the non-employee expert, or other concerns, outweigh the benefits of any possible legal action or recovery.

To meet our long-term growth targets, we need to establish ongoing relationships with additional non-employee experts who have reputations as leading experts in their fields. We may be unable to establish relationships with any additional non-employee experts. In addition, any relationship that we do establish may not help us meet our objectives or generate the revenues or earnings that we anticipate.

***We derive our revenues from a limited number of large engagements***

We derive a portion of our revenues from a limited number of large engagements. If we do not obtain a significant number of new large engagements each year, our business, financial condition, and results of operations could suffer. Our 10 largest engagements accounted for approximately 15% and 14% of our revenues the fiscal year to date periods ended June 29, 2013 and June 30, 2012, respectively. Our 10 largest clients accounted for approximately 16% and 19% of our revenues in the fiscal year to date periods ended June 29, 2013 and June 30, 2012, respectively. In general, the volume of work we perform for any particular client varies from year to year, and due to the specific engagement nature of our practice, a major client in one year may not hire us in the following year.

***Acquisitions may disrupt our operations or adversely affect our results***

We regularly evaluate opportunities to acquire other businesses. The expenses we incur evaluating and pursuing acquisitions could adversely affect our results of operations. If we acquire a business, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the financial, operational, and other benefits we anticipate from these acquisitions or any other acquisition. Many potential acquisition targets do not meet our criteria, and, for those that do, we face significant competition for these acquisitions from our direct competitors, private equity funds, and other enterprises. Competition for future acquisition opportunities in our markets could increase the price we pay for businesses we acquire and could reduce the number of potential acquisition targets. Further, acquisitions may involve a number of special financial and business risks, such as:

- diversion of our management's time, attention, and resources;
- decreased utilization during the integration process;
- loss of key acquired personnel;
- increased costs to improve or coordinate managerial, operational, financial, and administrative systems including compliance with the Sarbanes- Oxley Act of 2002;
- dilutive issuances of equity securities, including convertible debt securities;
- the assumption of legal liabilities;
- amortization of acquired intangible assets;
- potential write-offs related to the impairment of goodwill, including if our enterprise value declines below certain levels;
- difficulties in integrating diverse corporate cultures; and
- additional conflicts of interests.



***Clients can terminate engagements with us at any time***

Many of our engagements depend upon disputes, proceedings, or transactions that involve our clients. Our clients may decide at any time to seek to resolve the dispute or proceeding, abandon the transaction, or file for bankruptcy. Our engagements can therefore terminate suddenly and without advance notice to us. If an engagement is terminated unexpectedly, our employee consultants working on the engagement could be underutilized until we assign them to other projects. In addition, because much of our work is project-based rather than recurring in nature, our consultants' utilization depends on our ability to secure additional engagements on a continual basis. Accordingly, the termination or significant reduction in the scope of a single large engagement could reduce our utilization and have an immediate adverse impact on our revenues and results of operations.

***Potential conflicts of interests may preclude us from accepting some engagements***

We provide our services primarily in connection with significant or complex transactions, disputes, or other matters that are usually adversarial or that involve sensitive client information. Our engagement by a client may preclude us from accepting engagements with the client's competitors or adversaries because of conflicts between their business interests or positions on disputed issues or other reasons. Accordingly, the nature of our business limits the number of both potential clients and potential engagements. Moreover, in many industries in which we provide consulting services, such as in the telecommunications industry, there has been a continuing trend toward business consolidations and strategic alliances. These consolidations and alliances reduce the number of potential clients for our services and increase the chances that we will be unable to continue some of our ongoing engagements or accept new engagements as a result of conflicts of interests.

***Our clients may be unable or unwilling to pay us for our services***

Our clients include some companies that may from time to time encounter financial difficulties, particularly during a downward trend in the economy or may dispute the services we provide. If a client's financial difficulties become severe or a dispute arises, the client may be unwilling or unable to pay our invoices in the ordinary course of business, which could adversely affect collections of both our accounts receivable and unbilled services. On occasion, some of our clients have entered bankruptcy, which has prevented us from collecting amounts owed to us. The bankruptcy of a client with a substantial accounts receivable could have a material adverse effect on our financial condition and results of operations. Historically, a small number of clients who have paid sizable invoices have later declared bankruptcy, and a court determination that we were not properly entitled to any of those payments may require repayment of some or all of them, which could adversely affect our financial condition and results of operations.

***Fluctuations in our quarterly revenues and results of operations could depress the market price of our common stock***

We may experience significant fluctuations in our revenues and results of operations from one quarter to the next. If our revenues or net income in a quarter fall below the expectations of securities analysts or investors, the market price of our common stock could fall significantly. Our results of operations in any quarter can fluctuate for many reasons, including:

- our ability to implement rate increases;
- the number, scope, and timing of ongoing client engagements;
- the extent to which we can reassign our employee consultants efficiently from one engagement to the next;

- the extent to which our employee consultants or clients take holiday, vacation, and sick time, including traditional seasonality related to summer vacation and holiday schedules;
- employee hiring;
- the extent of revenue realization or cost overruns;
- fluctuations in the results and continuity of the operations of our software subsidiary, NeuCo;
- fluctuations in our provision for income taxes due to changes in income arising in various tax jurisdictions, valuation allowances, non-deductible expenses, and changes in estimates of our uncertain tax positions;
- fluctuations in interest rates; and
- collectability of receivables and unbilled work in process.

Because we generate a majority of our revenues from consulting services that we provide on an hourly fee basis, our revenues in any period are directly related to the number of our employee consultants, their billing rates, and the number of billable hours they work in that period. We have a limited ability to increase any of these factors in the short term. Accordingly, if we underutilize our consultants during one part of a fiscal period, we may be unable to compensate by augmenting revenues during another part of that period. In addition, we are occasionally unable to utilize fully any additional consultants that we hire, particularly in the quarter in which we hire them. Moreover, a significant majority of our operating expenses, primarily office rent and salaries are fixed in the short term. As a result, any failure of our revenues to meet our projections in any quarter could have a disproportionate adverse effect on our net income. For these reasons, we believe our historical results of operations are not necessarily indicative of our future performance.

***Our international operations create special risks***

Our international operations carry special financial and business risks, including:

- greater difficulties in managing and staffing foreign operations;
- difficulties from fluctuations in world-wide utilization levels;
- currency fluctuations that adversely affect our financial position and operating results;
- unexpected changes in trading policies, regulatory requirements, tariffs, and other barriers;
- different practices in collecting accounts receivable;
- increased selling, general, and administrative expenses associated with managing a larger and more global organization;
- longer sales cycles;
- restrictions on the repatriation of earnings;
- potentially adverse tax consequences, such as trapped foreign losses or changes in statutory tax rates;
- the impact of differences in the governmental, legal and regulatory environment in foreign jurisdictions, as well as U.S. laws and regulations related to our foreign operations;
- less stable political and economic environments; and
- civil disturbances or other catastrophic events that reduce business activity.



We conducted a portion of our business in the Middle East. At times, turmoil in the region interrupted our business operations in that region. In the third quarter of fiscal 2012, we closed our Middle East operations.

If our international revenues increase relative to our total revenues, these factors could have a more pronounced effect on our operating results.

***Our entry into new lines of business could adversely affect our results of operations***

If we attempt to develop new practice areas or lines of business outside our core litigation, regulatory, financial, and management consulting services, those efforts could harm our results of operations. Our efforts in new practice areas or new lines of business involve inherent risks, including risks associated with inexperience and competition from mature participants in the markets we enter. Our inexperience in these new practice areas or lines of business may result in costly decisions that could harm our business.

***We may need to take material write-offs for the impairment of goodwill and other intangible assets, including if our market capitalization declines***

As further described in Note 8 of our Notes to Condensed Consolidated Financial Statements, goodwill and intangible assets with indefinite lives are tested annually for impairment, or monitored more frequently, if events or circumstances exist that would more likely than not reduce our fair value below our carrying amount. In performing the first step of the goodwill impairment testing and measurement process, we compare our entity-wide estimated fair value to net book value to identify potential impairment. We estimate the entity-wide fair value utilizing our market capitalization, plus an appropriate control premium. We have utilized a control premium that considers appropriate industry, market and other pertinent factors, including indications of such premiums from data on recent acquisition transactions. If we determine through the impairment evaluation process that goodwill has been impaired, we would record the impairment charge in our consolidated income statements.

There were no impairment losses related to goodwill or intangible assets during the first half of fiscal 2013 or the first half of fiscal 2012.

In the future, if our market capitalization plus an estimated control premium is below our net book value for a period we consider to be other-than-temporary, we may be required to record an impairment of goodwill either as a result of our annual assessment performed in the fourth quarter of each year or in a future quarter if events or circumstances exist that would more likely than not reduce our fair value below our carrying amount. A non-cash goodwill impairment charge would have the effect of decreasing our earnings in such period. If we are required to take a substantial impairment charge, our operating results would be materially adversely affected in such period, though such a charge would have no impact on cash flows or working capital.

***Fluctuations in the types of service contracts we enter into may adversely impact revenue and results of operations***

We derive a portion of our revenues from fixed-price contracts. We derived approximately 14% and 13% of revenues from fixed-price engagements in the first half of fiscal 2013 and the first half of fiscal 2012. These contracts are more common in our management consulting area, and would likely grow in number with expansion of that area. Fluctuations in the mix between time-and-material contracts, fixed-price contracts and arrangements with fees tied to performance-based criteria, may result in fluctuations of revenue and results of operations. In addition, if we fail to estimate accurately the resources required for a fixed-price project or fail to satisfy our contractual obligations in a manner consistent with the project budget, we might generate a smaller profit or incur a loss on the project. On occasion, we have had to commit unanticipated additional resources to complete projects, and we may

have to take similar action in the future, which could adversely affect our revenues and results of operations.

***The market price of our common stock may be volatile***

The market price of our common stock has fluctuated widely and may continue to do so. For example, from July 1, 2012, to June 29, 2013, the trading price of our common stock ranged from a high of \$22.71 per share to a low of \$14.04 per share. Many factors could cause the market price of our common stock to rise and fall. Some of these factors are:

- variations in our quarterly results of operations;
- the hiring or departure of key personnel or non-employee experts;
- changes in our professional reputation;
- the introduction of new services by us or our competitors;
- acquisitions or strategic alliances involving us or our competitors;
- changes in accounting principles or methods;
- changes in estimates of our performance or recommendations by securities analysts;
- future sales of shares of common stock in the public market; and
- market conditions in the industry and the economy as a whole.

In addition, the stock market often experiences significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company's stock drops significantly, shareholders often institute securities class action litigation against that company. Any litigation against us could cause us to incur substantial costs, divert the time and attention of our management and other resources, or otherwise harm our business.

***Our engagements may result in professional liability and we may be subject to other litigation, claims or assessments***

Our services typically involve difficult analytical assignments and carry risks of professional and other liability. Many of our engagements involve matters that could have a severe impact on a client's business, cause the client to lose significant amounts of money, or prevent the client from pursuing desirable business opportunities. Accordingly, if a client is dissatisfied with our performance, the client could threaten or bring litigation in order to recover damages or to contest its obligation to pay our fees. Litigation alleging that we performed negligently, disclosed client confidential information, or otherwise breached our obligations to the client could expose us to significant liabilities to our clients and other third parties and tarnish our reputation.

Despite our efforts to prevent litigation, from time to time we are party to various lawsuits, claims, or assessments in the ordinary course of business. Disputes may arise, for example, from business acquisitions, employment issues, regulatory actions, and other business transactions. The costs and outcome of any lawsuits or claims could have a material adverse effect on us.

***Our debt obligations may adversely impact our financial performance***

We have a revolving line of credit with our bank for \$125.0 million. The amounts available under this line of credit are constrained by various financial covenants and reduced by certain letters of credit outstanding. Our loan agreement with the bank will mature on April 24, 2018. The degree to which we are leveraged could adversely affect our ability to obtain further financing for working capital,

acquisitions or other purposes and could make us more vulnerable to industry downturns and competitive pressures. Our ability to secure short-term and long-term debt or equity financing in the future will depend on several factors, including our future profitability, the levels of our debt and equity, restrictions under our existing revolving line of credit, and the overall credit and equity market environments.

***We could incur substantial costs protecting our proprietary rights from infringement or defending against a claim of infringement***

As a professional services organization, we rely on non-competition and non-solicitation agreements with many of our employees and non-employee experts to protect our proprietary rights. These agreements, however, may offer us only limited protection and may not be enforceable in every jurisdiction. In addition, we may incur substantial costs trying to enforce these agreements.

Our services may involve the development of custom business processes or solutions for specific clients. In some cases, the clients retain ownership or impose restrictions on our ability to use the business processes or solutions developed from these projects. Issues relating to the ownership of business processes or solutions can be complicated, and disputes could arise that affect our ability to resell or reuse business processes or solutions we develop for clients.

In recent years, there has been significant litigation in the U.S. involving patents and other intellectual property rights. We could incur substantial costs in prosecuting or defending any intellectual property litigation, which could adversely affect our operating results and financial condition.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain and use information that we regard as proprietary. Litigation may be necessary in the future to enforce our proprietary rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such resulting litigation could result in substantial costs and diversion of resources and could adversely affect our business, operating results and financial condition. Any failure by us to protect our proprietary rights, or any court determination that we have either infringed or lost ownership of proprietary rights could adversely affect our business, operating results and financial condition.

***Insurance and claims expenses could significantly reduce our profitability***

We are exposed to claims related to group health insurance. We self-insure a portion of the risk associated with these claims. If the number or severity of claims increases, or we are required to accrue or pay additional amounts because the claims prove to be more severe than our original assessment, our operating results would be adversely affected. Our future insurance and claims expense might exceed historical levels, which could reduce our earnings. We expect to periodically assess our self-insurance strategy. We are required to periodically evaluate and adjust our claims reserves to reflect our experience. However, ultimate results may differ from our estimates, which could result in losses over our reserved amounts. We maintain individual and aggregate medical plan stop loss insurance with licensed insurance carriers to limit our ultimate risk exposure for any one case and for our total liability.

Many businesses are experiencing the impact of increased medical costs as well as greater variability in ongoing costs. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention when our policies are renewed. If these expenses increase or we experience a claim for which coverage is not provided, results of our operations and financial condition could be materially and adversely affected.

### ***Our charter and by-laws, and Massachusetts law may deter takeovers***

Our amended and restated articles of organization and amended and restated by-laws and Massachusetts law contain provisions that could have anti-takeover effects and that could discourage, delay, or prevent a change in control or an acquisition that our shareholders may find attractive. These provisions may also discourage proxy contests and make it more difficult for our shareholders to take some corporate actions, including the election of directors. These provisions could limit the price that investors might be willing to pay for shares of our common stock.

### **ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) Not applicable.

(b) Not applicable.

(c) The following table provides information about our repurchases of shares of our common stock during the fiscal quarter ended June 29, 2013. During that period, we did not act in concert with any affiliate or any other person to acquire any of our common stock and, accordingly, we do not believe that purchases by any such affiliate or other person (if any) are reportable in the following table. For purposes of this table, we have divided the fiscal quarter into three periods of four weeks, four weeks, and five weeks, respectively, to coincide with our reporting periods during the second quarter of fiscal 2013.

#### **Issuer Purchases of Equity Securities**

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)</b>	<b>(d)</b>
				<b>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)</b>
March 31, 2013 to April 27, 2013 . . . .	985 shares(1)	\$20.38 per share(1)	—	\$3,639,978
April 28, 2013 to May 25, 2013 . . . . .	—	—	—	\$3,639,978
May 26, 2013 to June 29, 2013 . . . . .	—	—	—	\$3,639,978

- (1) During the four weeks ended April 27, 2013, we accepted 985 shares of our common stock as a tax withholding from certain of our employees, in connection with the vesting of restricted shares that occurred during the indicated period, pursuant to the terms of our 2006 equity incentive plan, at an average share price of \$20.38.
- (2) On August 30, 2011, we announced that our Board of Directors approved a share repurchase program of up to \$7.5 million of our common stock. On February 22, 2012 and August 10, 2012, our Board of Directors authorized the repurchase of up to an additional \$4.45 million and \$5.0 million, respectively, of our common stock under this program. During the second quarter of fiscal 2013, we did not purchase any shares under this program. Approximately \$3.6 million was available for future repurchases under this program as of June 29, 2013. We expect to continue to repurchase shares under this program.

### **ITEM 3. Defaults Upon Senior Securities**

None.

### **ITEM 4. Mine Safety Disclosures**

None.

### **ITEM 5. Other Information**

None.

## ITEM 6. EXHIBIT INDEX

Item No.	Description
10.1	Credit Agreement dated as of April 24, 2013 by and among CRA International, Inc., CRA International (UK) Limited, as the Borrowers, RBS Citizens, N.A., as Administrative Agent, Bank of America, N.A., as Syndication Agent, and the Lenders parties thereto (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed on April 30, 2013)
10.2	Securities Pledge Agreement dated as of April 24, 2013 by and between CRA International, Inc., as Pledgor, and RBS Citizens, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed on April 30, 2013)
31.1	Rule 13a-14(a)/15d-14(a) certification of principal executive officer
31.2	Rule 13a-14(a)/15d-14(a) certification of principal financial officer
32.1	Section 1350 certification
101*	The following financial statements from CRA International, Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2013, formatted in XBRL (eXtensible Business Reporting Language), as follows: (i) Condensed Consolidated Income Statements (unaudited) for the fiscal quarters and the fiscal year to date periods ended June 29, 2013 and June 30, 2012, (ii) Condensed Consolidated Statement of Comprehensive Income (Loss) (unaudited) for the fiscal quarters and the fiscal year to date periods ended June 29, 2013 and June 30, 2012, (iii) Condensed Consolidated Balance Sheets (unaudited) as at June 29, 2013 and December 29, 2012, (iv) Condensed Consolidated Statements of Cash Flows (unaudited) for the fiscal year to date periods ended June 29, 2013 and June 30, 2012, (v) Condensed Consolidated Statement of Shareholders' Equity (unaudited) for the fiscal year to date period ended June 29, 2013, and (vi) Notes to Condensed Consolidated Financial Statements (Unaudited).

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto shall not be deemed filed for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

## SIGNATURES

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

CRA INTERNATIONAL, INC.

Date: August 8, 2013

By: /s/ PAUL A. MALEH  
Paul A. Maleh  
*President and Chief Executive Officer*

Date: August 8, 2013

By: /s/ WAYNE D. MACKIE  
Wayne D. Mackie  
*Executive Vice President, Treasurer, and  
Chief Financial Officer*

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