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 **May 10, 2002**

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number: **000-24049**

Charles River Associates Incorporated

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2372210**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Clarendon Street, T-33, Boston, MA 02116-5092

(Address of principal executive offices) (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 ☐

As of June 17, 2002 CRA had outstanding 9,058,605 shares of common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Charles River Associates Incorporated
Consolidated Statements of Income
(In thousands, except per share data)
(unaudited)

	Twelve Weeks Ended		*Twenty-four Weeks Ended*	
	May 11, 2001	**May 10, 2002**	**May 11, 2001**	**May 10, 2002**
Revenues	$24,567	$28,016	$45,711	$52,218
Costs of services	14,660	17,266	27,191	31,943
Gross profit	9,907	10,750	18,520	20,275
Selling, general and administrative expenses	7,318	8,148	13,898	15,060
Income from operations	2,589	2,602	4,622	5,215
Interest income, net	276	109	615	217
Income before provision for income taxes and minority interest	2,865	2,711	5,237	5,432
Provision for income taxes	(1,128)	(1,052)	(2,210)	(2,181)
Income before minority interest	1,737	1,659	3,027	3,251
Minority interest	(33)	344	90	316
Net income	$ 1,704	$ 2,003	$ 3,117	$ 3,567
Net income per share:				
Basic	$ 0.19	$ 0.22	$ 0.34	$ 0.39
Diluted	$ 0.19	$ 0.22	$ 0.34	$ 0.38
Weighted average number of shares outstanding:				
Basic	9,108	9,043	9,106	9,046
Diluted	9,118	9,249	9,111	9,301

See accompanying notes.

Charles River Associates Incorporated
Consolidated Balance Sheets
(In thousands, except share data)

	November 24, 2001	May 10, 2002
		(unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$21,880	$12,750
Short-term investments	1,748	167
Accounts receivable, net of allowances of $914 in 2001 and $1,115 in 2002 for doubtful accounts	21,915	24,501
Unbilled services	15,350	14,089
Prepaid expenses	849	1,281
Deferred income taxes	1,437	1,437
Total current assets	63,179	54,225
Property and equipment, net	7,569	8,396
Goodwill, net of accumulated amortization of $1,965 in 2001 and 2002	17,948	26,634
Intangible assets, net of accumulated amortization of $596 in 2001 and $683 in 2002	1,018	932
Long-term investments	3,433	4,438
Deferred income taxes, net of current portion	328	328
Other assets	3,415	3,447
Total assets	$96,890	$98,400
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,044	$ 5,598
Accrued expenses	13,259	12,774
Deferred revenue and other liabilities	234	191
Current portion of notes payable to former stockholders	126	195
Current portion of notes payable	2,407	2,016
Total current liabilities	22,070	20,774
Notes payable to former stockholders, net of current portion	—	388
Notes payable, net of current portion	612	—
Deferred rent	1,963	1,769
Minority interest	2,243	1,927
Commitments and contingencies		
Stockholders' 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; 9,107,529 shares in 2001 and 9,051,105 shares in 2002 issued and outstanding	46,057	45,863
Receivable from stockholder	(4,500)	(4,500)
Deferred compensation	(117)	(139)
Retained earnings	28,778	32,348
Foreign currency translation	(216)	(30)
Total stockholders' equity	70,002	73,542
Total liabilities and stockholders' equity	$96,890	$98,400

See accompanying notes.

Charles River Associates Incorporated
Consolidated Statements of Cash Flows
(In thousands)

	Twenty-four Weeks Ended	
	May 11, 2001	May 10, 2002
	(unaudited)	
Operating activities:		
Net income	$ 3,117	$ 3,567
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,504	1,131
Deferred rent	169	(193)
Minority interest	(90)	(316)
Changes in operating assets and liabilities, net of effect of acquired business:		
Accounts receivable	(6,532)	(1,118)
Unbilled services	(462)	1,994
Prepaid expenses and other assets	(2,353)	(169)
Accounts payable, accrued expenses, and other liabilities	(1,078)	(2,283)
Net cash provided by (used in) operating activities	(5,725)	2,613
Investing activities:		
Purchase of property and equipment	(1,819)	(1,418)
Sale (purchase) of investments, net	2,234	576
Acquisition of business, net of cash acquired	—	(10,345)
Net cash provided by (used in) investing activities	415	(11,187)
Financing activities:		
Payments on notes payable	—	(1,003)
Payments on notes payable to former stockholders	(177)	(123)
Issuance of common stock	135	127
Issuance of common stock upon exercise of stock options	—	257
Net cash used in financing activities	(42)	(742)
Effect of foreign exchange rates on cash and cash equivalents	8	186
Net decrease in cash and cash equivalents	(5,344)	(9,130)
Cash and cash equivalents at beginning of period	20,305	21,880
Cash and cash equivalents at end of period	$14,961	$ 12,750
Noncash financing activities:		
Payable in exchange for treasury stock	$ —	$ 582
Supplemental cash flow information:		
Cash paid for income taxes	$ 1,866	$ 1,479

See accompanying notes.

Charles River Associates Incorporated
Notes to Consolidated Financial Statements
(Unaudited)

1. Description of Business

Charles River Associates Incorporated (CRA) is an economic and business consulting firm that applies advanced analytic techniques and in-depth industry knowledge to complex engagements for a broad range of clients. CRA offers two types of services: legal and regulatory consulting and business consulting.

2. Unaudited Interim Consolidated Financial Statements and Estimates

The consolidated statements of income for the twelve and twenty-four weeks ended May 11, 2001 and May 10, 2002, the consolidated balance sheet as of May 10, 2002, and the consolidated statements of cash flows for the twenty-four weeks ended May 11, 2001 and May 10, 2002, are unaudited. In the opinion of management, these statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of CRA's consolidated financial position, results of operations, and cash flows.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. Principles of Consolidation

The consolidated financial statements include the accounts of CRA, its wholly owned subsidiaries, and NeuCo, Inc. (NeuCo), a corporation founded by CRA and an affiliate of Commonwealth Energy Systems in June 1997. CRA has a 50.5 percent interest in NeuCo. The portion of the results of operations of NeuCo allocable to its minority owners is shown as "minority interest" on CRA's statement of income, and that amount, along with the capital contributions to NeuCo of its minority owners, is shown as "minority interest" on CRA's balance sheet. All significant intercompany accounts have been eliminated.

4. Fiscal Year

CRA's fiscal year ends on the last Saturday in November. Each of CRA's first, second, and fourth quarters includes twelve weeks, and its third quarter includes sixteen weeks.

5. Revenue Recognition

Revenues from most engagements are recognized as services are provided based upon hours worked and contractually agreed-upon hourly rates. Revenues also include expenses billed to clients, which include travel and other out-of-pocket expenses, charges for support staff and outside contractors, and other reimbursable expenses. An allowance is provided for any amounts considered uncollectible.

Unbilled services represent revenue recognized by CRA for services performed but not yet billed to the client.

CRA adopted the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements" in fiscal 2001. The adoption of SAB 101 did not have a significant impact on CRA's financial statements.

6. Cash Equivalents and Investments

Cash equivalents consist principally of money market funds, commercial paper, bankers' acceptances, and certificates of deposit with maturities of 90 days or less from purchase date. Short-term investments generally consist of government bonds with maturities of more than 90 days but less than one year from purchase date. Long-term investments generally consist of government bonds with maturities of more than one year but less than two years from purchase date. Held-to-maturity securities are stated at amortized cost which approximates fair value.

7. Goodwill

Goodwill represents the cost in excess of fair market value of net assets of acquired businesses. Prior to fiscal 2002, goodwill was amortized on a straight-line basis over periods ranging from 15 to 20 years.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," which revised the accounting for goodwill and other intangible assets. Specifically, goodwill and intangible assets with indefinite lives will no longer be subject to amortization, but will be monitored annually for impairment. Any impairment will be measured based upon the fair value of the related asset based upon provisions of SFAS No. 142. CRA elected early adoption of this accounting standard in the first quarter of fiscal year 2002. The adoption of this accounting standard is expected to reduce goodwill amortization by approximately $500,000, net of taxes, in fiscal year 2002.

8. Impairment of Long-Lived Assets

CRA reviews the carrying value of its long-lived assets (primarily property and equipment, goodwill, and intangible assets) to assess the recoverability of these assets whenever events indicate that impairment may have occurred; any impairments would be recognized in operating results if a permanent diminution in value were to occur. As part of this assessment, CRA reviews the expected future undiscounted operating cash flows from its acquired businesses. If asset impairment is indicated through this review, the carrying amount of the asset will be reduced to its estimated fair value.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The adoption of SFAS No. 144 is not expected to have a material effect on the financial position or results of operations of CRA.

9. Intangible Assets

Intangible assets consist principally of costs allocated to non-compete agreements and are amortized on a straight-line basis over the related terms of the agreements (seven to ten years).

10. Property and Equipment

Property and equipment are recorded at cost. CRA provides for depreciation of equipment using the straight-line method over its estimated useful life, generally three to five years. Amortization of leasehold improvements is provided using the straight-line method over the shorter of the lease term or the estimated useful life of the leasehold improvements.

11. Net Income per Share

Basic earnings per share represents net income divided by the weighted average shares of common stock outstanding during the period. Diluted earnings per share represents net income divided by the weighted average shares of common stock and common stock equivalents. Weighted average shares used in diluted earnings per share include common stock equivalents arising from stock options using the treasury stock method. Reconciliation of basic to diluted weighted average shares of common stock outstanding is as follows (in thousands):

	Twelve Weeks Ended		*Twenty-four Weeks Ended*	
	May 11, 2001	**May 10, 2002**	**May 11, 2001**	**May 10, 2002**
Basic weighted average shares outstanding	9,108	9,043	9,106	9,046
Weighted average equivalent shares	10	206	5	255
Diluted weighted average shares outstanding	9,118	9,249	9,111	9,301

12. Comprehensive Income

Comprehensive income represents net income reported by CRA in the accompanying consolidated statements of income adjusted for changes in CRA's foreign currency translation account. A reconciliation is as follows (in thousands):

	Twenty-four Weeks Ended	
	May 11, 2001	**May 10, 2002**
Net income	$3,117	$3,567
Change in foreign currency translation	8	186
Comprehensive income	$3,125	$3,753

13. Foreign Currency Translation

In accordance with SFAS No. 52, "Foreign Currency Translation," balance sheet accounts of CRA's foreign subsidiaries are translated into United States dollars at year-end exchange rates. Operating accounts are translated at average exchange rates for each reporting period.

14. Business Acquisition

On May 10, 2002, CRA completed the acquisition of certain assets of the North American and U.K. operations of the chemical and energy practice of Arthur D. Little, Inc. (ADL) for $10.3 million in cash. The acquisition has been accounted for under purchase accounting. The effective date of the acquisition of the North American portion of the acquisition was April 29, 2002, and the results of operations related to that portion of the acquisition have been included in the accompanying statements of operations from that effective date. The effective date of the acquisition of the U.K. portion of the acquisition was May 10, 2002, the last day of the second quarter of fiscal 2002. Accordingly, the accompanying statement of operations for the second quarter of fiscal 2002 does not include the results of operations of the U.K. portion of the acquisition. Management believes that the ADL acquisition enhances its existing position in consulting to the chemical and petroleum industries. CRA acquired 75 employee consultants, accounts receivable and the ongoing client projects being handled by the acquired employee consultants. Of the $10.3 million purchase price, $8.7 million was recorded as goodwill. The portion of the purchase price attributable to goodwill primarily related to the strong client relationships and extensive industry experience of the acquired employee consultants. The allocation of the purchase price was estimated at the time of acquisition, and is therefore subject to change.

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 "– Factors Affecting Future Performance." We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to carefully review the risk factors described in this quarterly report and in the other documents that we file with the Securities and Exchange Commission. You can read these documents at *www.sec.gov*.

Results of Operations-Twelve weeks Ended May 11, 2001 Compared to Twelve weeks Ended May 10, 2002

Revenues. Revenues increased $3.4 million, or 14.0 percent, from $24.6 million for the second quarter of fiscal 2001 to $28.0 million for the second quarter of fiscal 2002. The increase in revenues was due primarily to an increase in the number of employee consultants, an increase in consulting services performed for new and existing clients during the period including those clients acquired from the North American operations of Arthur D. Little's Chemical and Energy practice beginning April 29, 2002, and to a lesser extent, increased billing rates for our consultants. This increase was offset by a decrease in utilization of our employee consultants and a decrease in demand for NeuCo software and services. The total number of employee consultants increased from 250 at the end of the second quarter of fiscal 2001 to 356 at the end of the second quarter of fiscal 2002. Utilization was 78 percent for the second quarter of fiscal 2001 as compared to 71 percent for the second quarter of fiscal 2002. We experienced revenue increases during the second quarter of fiscal 2002 primarily in our business consulting services; in particular, we generated significant revenue increases in our finance and electric utility practice areas. These increases were partially offset by revenue decreases in our economic litigation services.

Costs of Services. Costs of services increased by $2.6 million, or 17.8 percent, from $14.7 million in the second quarter of fiscal 2001 to $17.3 million in the second quarter of fiscal 2002. As a percentage of revenues, costs of services increased from 59.7 percent in the second quarter of fiscal 2001 to 61.6 percent in the second quarter of fiscal 2002. The increase as a percentage of revenues was due primarily to lower utilization of our employee consultants.

Selling, General, and Administrative. Selling, general, and administrative expenses increased by $830,000, from $7.3 million in the second quarter of fiscal 2001 to $8.1 million in the second quarter of fiscal 2002. As a percentage of revenues, selling, general, and administrative expenses decreased from 29.8 percent in the second quarter of fiscal 2001 to 29.1 percent in the second quarter of fiscal 2002. The primary contributors to the decrease as a percentage of revenues were a decrease in commission payments to outside experts and the elimination of amortization of goodwill in the second quarter of fiscal 2002 resulting from our early adoption of SFAS 142.

Interest Income, Net. Net interest income decreased by $167,000, or 60.5 percent, from $276,000 in the second quarter of fiscal 2001 to $109,000 in the second quarter of fiscal 2002. This decrease resulted primarily from the overall decline in short-term interest rates.

Provision for Income Taxes. The provision for income taxes decreased by $76,000, to $1.1 million in the second quarter of fiscal 2002. Our effective income tax rate decreased from 39.4 percent in the second quarter of fiscal 2001 to 38.8 percent in the second quarter of fiscal 2002. The lower rate in the second quarter of fiscal 2002 was due primarily to a one-time tax benefit recognized related to the closure of a foreign office.

Minority Interest. Minority interest in the results of operations of NeuCo decreased from a profit of $33,000 in the second quarter of fiscal 2001 to a loss of $344,000 in the second quarter of fiscal 2002 due to a decrease in revenue and profit in NeuCo.

Results of Operations-Twenty-four weeks Ended May 11, 2001 Compared to Twenty-four weeks Ended May 10, 2002

Revenues. Revenues increased $6.5 million, or 14.2 percent, from $45.7 million for the twenty-four weeks ended May 11, 2001 to $52.2 million for the twenty-four weeks ended May 10, 2002. The increase in revenues was due primarily to an increase in the number of employee consultants, an increase in consulting services performed for new and existing clients during the period including those clients acquired from the North American operations of Arthur D. Little's Chemical and Energy Practice beginning April 29, 2002, and to a lesser extent, increased billing rates for our consultants. This increase was offset by a decrease in utilization of our employee consultants. The total number of employee consultants increased from 250 at the end of the twenty-four weeks ended May 11, 2001 to 356 at the end of the twenty-four weeks ended May 10, 2002. Utilization was 76 percent for the twenty-four weeks ended May 11, 2001 as compared to 69 percent for the twenty-four weeks ended May 10, 2002. We experienced revenue increases during the twenty-four weeks ended May 10, 2002 primarily in our business consulting services; in particular, we generated significant revenue increases in our finance and electric utility practice areas. These increases were partially offset by revenue decreases in economic litigation services.

Costs of Services. Costs of services increased by $4.8 million, or 17.5 percent, from $27.2 million in the twenty-four weeks ended May 11, 2001 to $31.9 million in the twenty-four weeks ended May 10, 2002. As a percentage of revenues, costs of services increased from 59.5 percent in the twenty-four weeks ended May 11, 2001 to 61.2 percent in the twenty-four weeks ended May 10, 2002. The increase as a percentage of revenues was due primarily to lower utilization of our employee consultants.

Selling, General, and Administrative. Selling, general, and administrative expenses increased by $1.2 million, from $13.9 million in the twenty-four weeks ended May 11, 2001 to $15.1 million in the twenty-four weeks ended May 10, 2002. As a percentage of revenues, selling, general, and administrative expenses decreased from 30.4 percent in the twenty-four weeks ended May 11, 2001 to 28.8 percent in the twenty-four weeks ended May 10, 2002. The primary contributors to the decrease as a percentage of revenues were a decrease in commission payments to outside experts and the elimination of amortization of goodwill in the twenty-four weeks ended May 10, 2002 resulting from our early adoption of SFAS 142.

Interest Income, Net. Net interest income decreased by $398,000, or 64.7 percent, from $615,000 in the twenty-four weeks ended May 11, 2001 to $217,000 in the twenty-four weeks ended May 10, 2002. This decrease resulted primarily from the overall decline in short-term interest rates.

Provision for Income Taxes. The provision for income taxes decreased by $29,000, to $2.2 million in the twenty-four weeks ended May 10, 2002. Our effective income tax rate decreased from 42.2 percent in the twenty-four weeks ended May 11, 2001 to 40.2 percent in the twenty-four weeks ended May 10, 2002. The lower rate in the twenty-four weeks ended May 10, 2002 was due primarily to a tax benefit recognized related to the closure of a foreign office in the second quarter of fiscal 2002.

Minority Interest. Minority interest in the results of operations of NeuCo increased from a loss of $90,000 in the twenty-four weeks ended May 11, 2001 to a loss of $316,000 in the twenty-four weeks ended May 10, 2002 due to a decrease in profit in NeuCo.

Liquidity and Capital Resources

As of May 10, 2002, we had cash and cash equivalents of $12.8 million, short-term and long-term investments of $4.6 million, and working capital of $33.5 million. Net cash provided by operating activities for the twenty-four weeks ended May 10, 2002 was $2.6 million. Cash generated from operating activities resulted primarily from net income of $3.6 million and a decrease in unbilled services of $2.0 million, offset in part by an increase in accounts payable, accrued expenses and other liabilities of $2.3 million.

Net cash used in investing activities for the twenty-four weeks ended May 10, 2002 was $11.2 million, primarily consisting of $10.3 million used to purchase the North American and U.K. operations of Arthur D. Little's Chemical & Energy practice.

Net cash used in financing activities for the twenty-four weeks ended May 10, 2002 was $742,000, consisting principally of payments on notes payable in connection with the acquisition of a line of business from PA Consulting Group, Inc. in July 2001. These notes are payable on a quarterly basis through December 31, 2002.

In connection with our acquisition of the consulting business of Dr. Gordon C. Rausser in October 2000, we loaned Dr. Rausser $4.5 million, on a full-recourse basis, which he used to purchase shares of our common stock. The loan is scheduled to be repaid in 2004. If the acquired business meets specified performance targets, we will owe Dr. Rausser additional consideration, payable in the first quarter of fiscal 2004.

We currently have available a $2.0 million revolving line of credit with Fleet National Bank, which is secured by our accounts receivable. This line of credit automatically renews each year on June 30 unless terminated earlier by either Fleet National Bank or us. No borrowings were outstanding under this line of credit as of May 10, 2002.

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

To date, inflation has not had a material impact on our financial results. There can be no assurance, however, that inflation will not adversely affect our financial results in the future.

Factors Affecting Future Performance

We depend upon only a few 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 of our employee consultants. If we lose the services of any employee consultant or if our employee consultants fail to generate business or otherwise fail to perform effectively, that loss or failure could harm our business. We do not have any employment agreements with our employee consultants, and they can terminate their relationships with us at will and without notice. The noncompetition agreements that we have with many of our employee consultants offer us only limited protection and may not be enforceable in every jurisdiction.

Our failure to manage our expanding business successfully could adversely affect our revenue and results of operations

Any failure on our part to manage our expanding business successfully could harm our business. We have continued to open new offices in new geographic areas, including foreign locations, and to expand our employee base as a result of both internal growth and acquisitions. Operations in our foreign offices are subject to foreign currency fluctuations and cultural differences that could affect utilization. Opening and managing new offices requires extensive management supervision and tends to increase 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 officers, particularly James C. Burrows, our President and Chief Executive Officer, to manage our expansion. New responsibilities and demands may adversely affect the overall quality of our work.

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 economic and business 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 may result in costly decisions that could harm our business.

Clients can terminate engagements with us at any time

Our engagements generally 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, or abandon the transaction. Our engagements can therefore terminate suddenly and without advance notice to us. If an engagement is terminated unexpectedly, the employee consultants working on the engagement could be underutilized until we assign them to other projects. Accordingly, the termination or significant reduction in the scope of a single large engagement could harm our business.

We depend on our antitrust and mergers and acquisitions consulting business

We derive a substantial portion of our revenues from engagements in our antitrust and mergers and acquisitions practice areas. Any substantial reduction in the number or size of our engagements in these practice areas could harm our business. We derive almost all of these revenues from engagements relating to enforcement of United States antitrust laws. Changes in federal antitrust laws, changes in judicial interpretations of these laws, or less vigorous enforcement of these laws as a result of changes in political appointments or priorities or for other reasons could substantially reduce our revenues from engagements in this area. In addition, adverse changes in general economic conditions, particularly conditions influencing the merger and acquisition activity of larger companies, could also adversely affect engagements in which we assist clients in proceedings before the Department of Justice and the Federal Trade Commission. The current economic downturn is adversely affecting mergers and acquisitions activity, which is reducing the number and scope of our engagements in this practice area. Any continuation or worsening of the downturn could cause this trend to intensify, which would adversely affect our revenues and results of operations.

We derive our revenues from a limited number of large engagements

We derive a significant 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. In general, the volume of work we perform for any particular client varies from year to year, and a major client in one year may not hire us again.

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

Our business requires us to continually hire highly qualified, highly educated consultants as employees. Our failure to recruit and retain a significant number of qualified employee consultants could harm our business. 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 significantly 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 have a material adverse effect on our margins and results of operations.

We depend on our outside experts

We depend on our relationships with our exclusive outside experts. In each of fiscal 2000 and fiscal 2001, six of our exclusive outside experts generated engagements that accounted for approximately 30 percent and 28 percent of our revenues in those years. We believe that these outside 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 could offer the services of these outside experts. Most of these outside 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, the pursuit of other interests, and retirement.

As of May 10, 2002, 28 of our outside experts have entered noncompetition agreements with us. The limitation or termination of any of their relationships with us or competition from any of them after these agreements expire could harm our business. To meet our long-term growth targets, we need to establish ongoing relationships with additional outside experts who have reputations as leading experts in their fields. We may be unable to establish relationships with any additional outside 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.

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 have a material adverse effect on our results of operations. If we acquire a business, such as the recent acquisition of ADL's chemical and energy practice, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to achieve the financial, operational, and other benefits we anticipate from any acquisition. 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 risks, such as:

– one-time charges related to the acquisition

– diversion of our management's time, attention, and resources

– loss of key acquired personnel

– increased costs to improve or coordinate managerial, operational, financial, and administrative systems

– dilutive issuances of equity securities

– the assumption of legal liabilities

– amortization of acquired intangible assets

– potential write-offs related to the impairment of acquired goodwill

– difficulties in integrating diverse corporate cultures

– additional conflicts of interests

The occurrence of any of these events could harm our business.

Our international operations create special risks

We may continue our international expansion, and our international revenues may account for an increasing portion of our revenues in the future. Our international operations carry special risks, including:

– greater difficulties in managing and staffing foreign operations

– cultural differences that adversely affect utilization

– currency fluctuations that adversely affect our financial position and operating results

– unexpected changes in trading policies, regulatory requirements, tariffs and other barriers

– greater difficulties in collecting accounts receivable

– longer sales cycles

– restrictions on the repatriation of earnings

– potentially adverse tax consequences, such as trapped foreign losses

– less stable political and economic environments

If our international revenues increase relative to our total revenue, these factors could have a more pronounced effect on our operating results. In any event, any of these factors could seriously harm our business.

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 the following:

– the number of weeks in the quarter

– the number, scope, and timing of ongoing client engagements

– the extent to which we can reassign employee consultants efficiently from one engagement to the next

– employee hiring

– the extent of discounting or cost overruns

– severe weather conditions and other factors affecting employee productivity

– collectibility of receivables

Because we generate almost all 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 are sometimes unable to compensate by augmenting revenues during another part of that period. In addition, we are sometimes unable to fully utilize 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, if our revenues fail to meet our projections in any quarter, that could have a disproportionate adverse effect on our net income. For these reasons, we believe our historical results of operations do not predict our future performance.

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 frequently precludes us from accepting engagements with the client's competitors or adversaries because of conflicts between their interests or positions on disputed issues or other reasons. Accordingly, the number of both potential clients and potential engagements is limited. Moreover, in many industries in which we provide consulting services 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. Any of these events could harm our business.

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 consultants and principal outside experts. Because we obtain a majority of our new engagements from existing clients or from referrals by those clients, any client that is dissatisfied with our performance on a single matter could seriously impair our ability to secure new engagements. Any factor that diminishes our reputation or the reputations of any of our personnel or outside experts could make it substantially more difficult for us to compete successfully for both new engagements and qualified consultants. Any loss of reputation could harm our business.

Intense competition from other economic and business consulting firms could hurt our business

The market for economic and business 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 business consulting industries. In the legal and regulatory consulting market, we compete primarily with other economic consulting firms and individual academics. In the business 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 and international reputations as well as significantly greater personnel, financial, managerial, technical and marketing resources than we do. Some of our competitors also have a significantly broader geographic presence than we do.

Our engagements may result in professional liability

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 the 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 or otherwise breached our obligations to the client could expose us to significant liabilities and tarnish our reputation. These liabilities could harm our business.

The price of our common stock may be volatile

Our stock price has been volatile. From May 11, 2001 to May 10, 2002, the trading price of our common stock ranged from $10.60 to $22.29. Many factors may cause the market price of our common stock to fluctuate significantly, including the following:

– variations in our quarterly results of operations

– the hiring or departure of key personnel or outside 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

– changes in the legal and regulatory environment affecting clients

– changes in estimates of our performance or recommendations by securities analysts

– future sales of shares of common stock in the public market

– market conditions in the industry and the economy as a whole.

In addition, the stock market has recently experienced extreme 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, stockholders 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 charter and by-laws and Massachusetts law may deter takeovers

Our articles of organization and by-laws and Massachusetts law contain provisions that could have antitakeover effects and that could discourage, delay, or prevent a change in control or an acquisition that many stockholders may find attractive. These provisions may also discourage proxy contests and make it more difficult for our stockholders 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 3. Quantitative and Qualitative Disclosure About Market Risk

As of May 10, 2002, we were exposed to market risks, which primarily include changes in U.S. interest rates.

We maintain a portion of our investments in financial instruments with purchased maturities of one year or less and a portion of our investments in financial instruments with purchased maturities of two years or less. These financial instruments are subject to interest rate risk and will decline in value if interest rates increase. Because these financial instruments are readily marketable, an immediate increase in interest rates would not have a material effect on our financial position.

PART II. OTHER INFORMATION:

ITEM 1. Legal Proceedings

We are not a party to any legal proceedings the outcome of which, in the opinion of our management, would have a material adverse effect on our business, financial condition, or results of operations.

ITEM 4. Submission of Matters to a Vote of Security Holders

On April 26, 2002, we held our annual meeting of stockholders. Matters voted on and the results of those votes are set forth below:

1. Our stockholders elected William F. Concannon, Rowland T. Moriarty and Steven C. Salop to serve as Class I directors for three-year terms.

   The votes cast to elect the Class I directors were:

Name	For	Withheld
William F. Concannon	6,366,068	234,457
Rowland T. Moriarty	6,366,068	234,457
Steven C. Salop	6,366,068	234,457

2. Our stockholders approved the amendment of our 1998 Incentive and Nonqualified Stock Option Plan to increase the number of shares of common stock that we may issue under the plan from 1,870,000 to 2,470,000 and to add a provision automatically increasing the maximum number of shares on an annual basis by the lesser of 400,000 shares or 4% of the number of shares of common stock outstanding at the end of each fiscal year.

   The votes cast to approve the amendment of our 1998 Incentive and Nonqualified Stock Option Plan were:

For	Against
4,887,168	1,427,453

   There were 643 abstentions and 285,261 broker non-votes on this amendment.

3. Our stockholders ratified the appointment of Ernst & Young LLP as our independent accountants.

   The votes cast to ratify the appointment of Ernst & Young LLP as our independent accountants were:

For	Against
6,538,746	61,579

   There were 200 abstentions on this proposal.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Item No.	Description
10.1*	1998 Incentive and Nonqualified Stock Option Plan, as amended

* Management contract or compensatory plan.

(b) Reports on Form 8-K

CRA did not file any reports on Form 8-K during the quarter ended May 10, 2002.

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.

	Charles River Associates Incorporated
Date: June 20, 2002	By: /s/ James C. Burrows
	James C. Burrows President and Chief Executive Officer
Date: June 20, 2002	By: /s/ Michael J. Tubridy
	Michael J. Tubridy Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)