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# 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 16, 2003

or

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

Commission file number: 000-24049

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### Charles River Associates Incorporated

(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, T-33, Boston, MA**  
(Address of principal executive offices)

**02116-5092**  
(Zip Code)

**617-425-3000**

(Registrant's telephone number, including area code)

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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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

As of June 24, 2003 CRA had outstanding 9,220,921 shares of common stock.

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**Charles River Associates Incorporated**

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**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements****Charles River Associates Incorporated**  
**Consolidated Statements of Income (unaudited)***(In thousands, except per share data)*

	<b>Twelve Weeks Ended</b>		<b>Twenty-four Weeks Ended</b>	
	<b>May 10, 2002</b>	<b>May 16, 2003</b>	<b>May 10, 2002</b>	<b>May 16, 2003</b>
Revenues . . . . .	\$ 28,016	\$ 40,245	\$ 52,218	\$ 75,030
Costs of services . . . . .	17,266	25,261	31,943	46,959
Gross profit . . . . .	10,750	14,984	20,275	28,071
Selling, general and administrative expenses . . . . .	8,148	10,349	15,060	19,610
Income from operations . . . . .	2,602	4,635	5,215	8,461
Interest and other income, net . . . . .	109	193	217	187
Income before provision for income taxes and minority interest . . . . .	2,711	4,828	5,432	8,648
Provision for income taxes . . . . .	(1,052)	(2,017)	(2,181)	(3,589)
Income before minority interest . . . . .	1,659	2,811	3,251	5,059
Minority interest . . . . .	344	11	316	(30)
Net income . . . . .	<u>\$ 2,003</u>	<u>\$ 2,822</u>	<u>\$ 3,567</u>	<u>\$ 5,029</u>
Net income per share:				
Basic . . . . .	<u>\$ 0.22</u>	<u>\$ 0.31</u>	<u>\$ 0.39</u>	<u>\$ 0.56</u>
Diluted . . . . .	<u>\$ 0.22</u>	<u>\$ 0.30</u>	<u>\$ 0.38</u>	<u>\$ 0.54</u>
Weighted average number of shares outstanding:				
Basic . . . . .	<u>9,043</u>	<u>9,019</u>	<u>9,046</u>	<u>9,015</u>
Diluted . . . . .	<u>9,249</u>	<u>9,343</u>	<u>9,301</u>	<u>9,260</u>

*See accompanying notes.*

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

	<u>November 30, 2002</u>	<u>May 16, 2003</u> <i>(unaudited)</i>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 18,846	\$ 23,302
Short-term investments . . . . .	152	43
Accounts receivable, net of allowances of \$1,417 in 2002 and \$1,641 in 2003 for doubtful accounts . . . . .	25,705	31,050
Unbilled services . . . . .	16,201	16,427
Prepaid expenses . . . . .	1,976	2,590
Deferred income taxes . . . . .	1,926	1,910
Total current assets . . . . .	64,806	75,322
Property and equipment, net . . . . .	9,397	11,126
Goodwill . . . . .	24,944	24,802
Intangible assets, net of accumulated amortization of \$991 in 2002 and \$1,169 in 2003 . . . . .	1,532	1,354
Long-term investments . . . . .	5,348	4,951
Deferred income taxes, net of current portion . . . . .	131	131
Other assets . . . . .	3,011	2,585
Total assets . . . . .	<u>\$ 109,169</u>	<u>\$ 120,271</u>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 7,894	\$ 8,507
Accrued expenses . . . . .	17,306	20,663
Deferred revenue and other liabilities . . . . .	910	2,338
Current portion of notes payable to former stockholders . . . . .	304	327
Current portion of notes payable . . . . .	683	—
Total current liabilities . . . . .	27,097	31,835
Notes payable to former stockholders, net of current portion . . . . .	413	413
Deferred rent . . . . .	1,605	2,461
Minority interest . . . . .	1,696	1,726
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; 9,011,382 shares in 2002 and 9,032,082 in 2003 issued and outstanding . . . . .	45,596	45,571
Receivable from stockholder . . . . .	(4,500)	(4,500)
Deferred compensation . . . . .	(11)	(37)
Retained earnings . . . . .	37,217	42,246
Foreign currency translation . . . . .	56	556
Total stockholders' equity . . . . .	78,358	83,836
Total liabilities and stockholders' equity . . . . .	<u>\$ 109,169</u>	<u>\$ 120,271</u>

*See accompanying notes.*

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

	<b>Twenty-four Weeks Ended</b>	
	<b>May 10, 2002</b>	<b>May 16, 2003</b>
<b>Operating activities:</b>		
Net income . . . . .	\$ 3,567	\$ 5,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization . . . . .	1,131	1,825
Deferred rent . . . . .	(193)	852
Minority interest . . . . .	(316)	30
Changes in operating assets and liabilities:		
Accounts receivable . . . . .	(1,118)	(5,050)
Unbilled services . . . . .	1,994	(10)
Prepaid expenses and other assets . . . . .	(169)	(125)
Accounts payable, accrued expenses, and other liabilities . . . . .	(2,283)	5,055
Net cash provided by operating activities . . . . .	2,613	7,606
<b>Investing activities:</b>		
Purchase of property and equipment . . . . .	(1,418)	(3,010)
Sale of investments, net . . . . .	576	506
Acquisition of business, net of cash acquired . . . . .	(10,345)	—
Net cash used in investing activities . . . . .	(11,187)	(2,504)
<b>Financing activities:</b>		
Payments on notes payable . . . . .	(1,003)	(660)
Payments on notes payable to former stockholders . . . . .	(123)	—
Issuance of common stock . . . . .	127	—
Issuance of common stock upon exercise of stock options . . . . .	257	186
Payment for repurchase of minority interest shares in subsidiary . . . . .	—	(300)
Net cash used in financing activities . . . . .	(742)	(774)
Effect of foreign exchange rates on cash and cash equivalents . . . . .	186	128
Net increase in cash and cash equivalents . . . . .	(9,130)	4,456
Cash and cash equivalents at beginning of period . . . . .	21,880	18,846
Cash and cash equivalents at end of period . . . . .	<u>\$ 12,750</u>	<u>\$ 23,302</u>
Non-cash financing activities:		
Payable in exchange for treasury stock . . . . .	<u>\$ 582</u>	<u>\$ —</u>
Supplemental cash flow information:		
Cash paid for income taxes . . . . .	<u>\$ 1,479</u>	<u>\$ 3,724</u>

*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, financial, 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. CRA operates in only one business segment, which is consulting services.

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

The consolidated statements of income for the twelve and twenty-four weeks ended May 10, 2002 and May 16, 2003, the consolidated balance sheet as of May 16, 2003, and the consolidated statements of cash flows for the twenty-four weeks ended May 10, 2002 and May 16, 2003, are unaudited. The November 30, 2002 balance sheet is derived from CRA's audited financial statements included in its Annual Report on Form 10-K as of that date. 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. As of February 21, 2003, CRA had a 49.7 percent interest in NeuCo which, combined with other considerations, represented control. In March 2003, NeuCo repurchased and cancelled shares from a minority interest stockholder, which increased CRA's interest in NeuCo to 59.7 percent. This transaction has been recorded as an adjustment of capital. 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, and accordingly, its fiscal year will periodically contain 53 weeks rather than 52 weeks. Fiscal 2002 was a 53-week year, whereas fiscal 2003 is a 52-week year. In a 52-week year, each of CRA's first, second, and fourth quarters includes twelve weeks, and its third quarter includes sixteen weeks. In a 53-week year, the fourth quarter includes thirteen weeks.

**5. Revenue Recognition**

Revenues from most engagements are recognized as services are provided based upon hours worked and contractually agreed-upon hourly rates, as well as a computer services fee based upon hours

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

worked. Some revenues are derived from fixed-price engagements, for which revenue is 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. Losses are provided for at the earliest date by which they are identified. Revenues also include expenses billed to clients, which include travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. These reimbursable expenses included in revenues are as follows (in thousands):

	<u>Twelve Weeks Ended</u>		<u>Twenty-four Weeks Ended</u>	
	<u>May 10, 2002</u>	<u>May 16, 2003</u>	<u>May 10, 2002</u>	<u>May 16, 2003</u>
Reimbursable expenses billed to clients . . . . .	\$3,440	\$6,637	\$6,868	\$11,804

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.

**6. Cash Equivalents and Investments**

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

**7. Goodwill and Other Intangible Assets**

Goodwill represents the cost in excess of fair market value of net assets of acquired businesses. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), 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 are monitored annually for impairment, or more frequently if there are indicators of impairment. Any impairment would 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 fiscal 2002. There were no impairment losses related to goodwill due to the application of SFAS No. 142 in fiscal 2002, nor were there any indications of impairment in the twenty-four weeks ended May 16, 2003.

Intangible assets consist principally of non-competition agreements and customer relationships and are generally amortized over five to ten years.

**8. Impairment of Long-Lived Assets**

CRA reviews the carrying value of its long-lived assets (primarily property and equipment and intangible assets) to assess the recoverability of these assets whenever events indicate that impairment may have occurred. As part of this assessment, CRA reviews the expected future undiscounted operating cash flows expected to be generated by those assets. If impairment is indicated through this review, the carrying amount of the asset will be reduced to its estimated fair value.

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

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). 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 became effective for CRA in fiscal 2003. The adoption of SFAS No. 144 did not have a material effect on the financial position or results of operations of CRA.

**9. 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 ten 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. Expenditures for maintenance and repairs are expensed as incurred. Expenses for renewals and betterments are capitalized.

**10. 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 outstanding during the period. 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 10, 2002	May 16, 2003	May 10, 2002	May 16, 2003
Basic weighted average shares outstanding . . . . .	9,043	9,019	9,046	9,015
Weighted average equivalent shares . . . . .	206	324	255	245
Diluted weighted average shares outstanding . . . .	<u>9,249</u>	<u>9,343</u>	<u>9,301</u>	<u>9,260</u>

**11. Stock-Based Compensation**

CRA has elected to follow Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its stock-based compensation plans rather than the alternative fair value accounting method provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123). SFAS No. 123 requires that companies either recognize compensation expense for grants of stock options and other equity instruments based on fair value, or provide pro forma disclosure of net income and net income per share in the notes to the financial statements. The



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

following table presents the effect on net income and net income per share had compensation costs for the awards under the stock-based compensation plans been determined consistent with SFAS No. 123:

	<b>Twelve Weeks Ended</b>		<b>Twenty-four Weeks Ended</b>	
	<b>May 10, 2002</b>	<b>May 16, 2003</b>	<b>May 10, 2002</b>	<b>May 16, 2003</b>
Net income—as reported . . . . .	\$ 2,003	\$ 2,822	\$ 3,567	\$ 5,029
Less stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit	\$ (338)	\$ (494)	\$ (669)	\$ (973)
Net income—pro forma . . . . .	\$ 1,665	\$ 2,328	\$ 2,898	\$ 4,056
Basic net income per share — as reported . . . . .	\$ .22	\$ .31	\$ .39	\$ .56
Basic net income per share—pro forma . . . . .	\$ .18	\$ .26	\$ .32	\$ .45
Diluted net income per share—as reported . . . . .	\$ .22	\$ .30	\$ .38	\$ .54
Diluted net income per share—pro forma . . . . .	\$ .18	\$ .25	\$ .31	\$ .44

**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):

	<b>Twenty-four Weeks Ended</b>	
	<b>May 10, 2002</b>	<b>May 16, 2003</b>
Net income . . . . .	\$3,567	\$5,029
Change in foreign currency translation . . . . .	186	500
Comprehensive income . . . . .	<u>\$3,753</u>	<u>\$5,529</u>

**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 period-end exchange rates. Operating accounts are translated at average exchange rates for each reporting period. The net gain or loss resulting from the changes in exchange rates during the twenty-four weeks ended May 10, 2002 and May 16, 2003 have been reported in comprehensive income. Transaction gains and losses are recorded in interest and other income, net, in the consolidated statements of income.

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

**14. Business Acquisition**

On May 10, 2002, CRA completed the acquisition of certain assets of the North American and U.K. operations of the Chemicals and Energy Vertical practice (“CEV”) of the then Arthur D. Little corporation (“ADL”) for \$10.5 million in cash. (Arthur D. Little, Inc. is now known as Dehon, Inc.(1)) The acquisition has been accounted for under the purchase method of accounting. The effective date of the acquisition of the North American portion was April 29, 2002, while the effective date of the U.K. portion of the acquisition was May 10, 2002. The results of operations related to the acquisitions have been included in the accompanying statements of income from the respective effective dates. The pro forma results of operations had this acquisition occurred at the beginning of fiscal 2002 would not be materially different from the results in the accompanying statements of income. Management believes that the CEV acquisition enhanced CRA’s position in consulting to the chemicals and petroleum industries. CRA acquired 75 employee consultants, accounts receivable and the ongoing client projects being handled by the acquired employee consultants. Of the \$10.5 million purchase price, \$0.9 million was recorded as intangibles, consisting primarily of customer relationships, \$2.7 million was recorded primarily as accounts receivable, and the remaining \$6.9 million was recorded as goodwill, all of which is expected to be deducted for tax purposes. The portion of the purchase price attributable to goodwill primarily related to the extensive industry experience of the acquired employee consultants.

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(1) The “Arthur D. Little” and “ADL” trademarks were purchased by a third party.

## **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](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 electronically file them 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.

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. 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 past experience or other assumptions do not turn out to be substantially accurate.

A summary of the accounting policies that we believe are most critical to understanding and evaluating our financial results is set forth below. This summary should be read in conjunction with our consolidated financial statements and the related notes included in Item 1 of this quarterly report on Form 10-Q, as well as in our most recently filed annual report on Form 10-K.

*Revenue Recognition and Allowance for Doubtful Accounts.* We derive substantially all of our revenues from the performance of professional services. The contracts that we enter into and operate under specify whether the engagement will be billed on a time-and-materials or fixed-price basis. Typically, these engagements are of a short, predetermined time frame, generally lasting three to six months, although some of our engagements can be much longer in duration. A vice president of CRA approves all contracts.

We recognize substantially all of our revenue under written service contracts with our clients. Revenues from time-and-materials service contracts are recognized as the services are provided based upon hours worked and contractually agreed-upon hourly rates, as well as a computer services fee based upon hours worked. Revenues from 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. Project costs are based on the direct salary and associated fringe benefits of the consultants on the engagement plus all direct expenses incurred to complete the engagement that are not reimbursed by the client. The proportional performance method is used since reasonably dependable estimates of the revenues and costs applicable to various stages of a contract can be made,

based on historical experience and milestones set forth in the contract, and are indicative of the level of benefit provided to our clients. Contracts generally include a termination provision that reduces the agreement to a time-and-materials contract in the event of termination of the contract. There are no costs that are deferred and amortized over the contract term. Our financial management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, financial management is updated on the budgeted costs and resources required to complete the project. These budgets are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated income or losses on those contracts. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

Revenues also include expenses billed to clients, which include travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. These reimbursable expenses included in revenues are as follows (in thousands):

	<u>Twelve Weeks Ended</u>		<u>Twenty-four Weeks Ended</u>	
	<u>May 10, 2002</u>	<u>May 16, 2003</u>	<u>May 10, 2002</u>	<u>May 16, 2003</u>
Reimbursable expenses billed to clients . . . . .	\$3,440	\$6,637	\$6,868	\$11,804

We recognize revenue for services only in those situations where collection from the client is reasonably assured. Our normal payment terms are 30 days from invoice date. For the quarters ended May 10, 2002 and May 16, 2003, our average days sales outstanding for billed and unbilled accounts receivable was 114 days and 95 days, respectively. Our project managers and finance personnel monitor timely payments from our clients and assess any collection issues. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our clients to make required payments. We base our estimates on our historical collection experience, current trends, credit policy and relationship of our accounts receivable and revenues. In determining these estimates, we examine historical write-offs of our receivables and review client accounts to identify any specific customer collection issues. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required. Our failure to estimate accurately the losses for doubtful accounts and ensure that payments are received on a timely basis could have a material adverse effect on our business, financial condition, and results of operations. As of November 30, 2002 and May 16, 2003, \$1.4 million and \$1.6 million, respectively, were provided for doubtful accounts.

*Goodwill and Other Intangible Assets.* We account for our acquisitions of consolidated companies under the purchase method of accounting pursuant to SFAS No. 141, "Business Combinations". Intangible assets that are separable from goodwill and have determinable useful lives are valued separately and amortized over their expected useful lives. Intangible assets consist principally of non-competition agreements and customer relationships and are generally amortized over five to ten years. Goodwill represents the excess of cost over net assets, including all identifiable intangible assets, of acquired businesses that are consolidated.

In accordance with SFAS No. 142, which we adopted in fiscal 2002, we ceased amortizing goodwill arising from acquisitions. In lieu of amortization, we perform an impairment review of our goodwill annually, or more frequently if there are other indicators of impairment. There were no impairment losses related to goodwill due to the application of SFAS No. 142 in fiscal 2002, nor were there any indications of impairment in the twenty-four weeks ended May 16, 2003. If we determine through the impairment review process that goodwill has been impaired, we would record the impairment charge in our statement of income. The net amount of goodwill was approximately \$24.8 million as of May 16, 2003.

We assess the impairment of amortizable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include the following:

- a significant underperformance relative to expected historical or projected future operating results;
- a significant change in the manner of our use of the acquired asset or the strategy for our overall business;
- a significant negative industry or economic trend;
- our market capitalization relative to net book value.

As part of this assessment, we would review the expected future undiscounted cash flows to be generated by the assets. When we determine that the carrying value of intangible assets may not be recoverable, we measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. The net amount of intangible assets was approximately \$1.4 million as of May 16, 2003.

*Accounting for Income Taxes.* We record income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carry-forwards. Our financial statements contain certain deferred tax assets as well as other temporary differences between book and tax accounting. SFAS No. 109, "Accounting for Income Taxes," requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We evaluate the weight of all available evidence to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The decision to record a valuation allowance requires varying degrees of judgment based upon the nature of the item giving rise to the deferred tax asset. As a result of operating losses incurred in certain of our foreign subsidiaries, anticipated additional operating losses in the future and uncertainty as to the extent and timing of profitability in future periods, we recorded a full valuation allowance in certain of these foreign subsidiaries during the year ended November 30, 2002. Had we not recorded this allowance, we would have reported a lower effective tax rate than that recognized in our statements of income in fiscal 2002. If the realization of deferred tax assets in the future is considered more likely than not, an adjustment to the deferred tax assets would increase net income in the period such determination was made. During the twenty-four weeks ended May 16, 2003, the valuation allowance was reduced slightly due to the anticipated use of certain net operating losses during fiscal 2003. The amount of the deferred tax asset considered realizable is based on significant estimates, and it is at least reasonably possible that changes in these estimates in the near term could materially affect our financial condition and results of operations. Our effective tax rate may vary from period to period based on changes in estimated taxable income or loss, changes to the valuation allowance, changes to federal, state or foreign tax laws, future expansion into areas with varying country, state, and local income tax rates, deductibility of certain costs and expenses by jurisdiction and as a result of acquisitions.

## **Results of Operations—Twelve weeks Ended May 10, 2002 Compared to Twelve weeks Ended May 16, 2003**

*Revenues.* Revenues increased \$12.2 million, or 43.7%, from \$28.0 million for the second quarter of fiscal 2002 to \$40.2 million for the second quarter of fiscal 2003. The increase in revenues was due primarily to an increase in the number of employee consultants, particularly as a result of the acquisition of the CEV business, an increase in utilization, increased billing rates for our employee consultants, and an increase in expenses billed to clients. Revenues derived from fixed-price engagements increased from 7.2% for the second quarter of fiscal 2002 to 20.2% for the second quarter of fiscal 2003. This increase is primarily due to the acquisition of CEV, which traditionally entered into fixed-price engagements. The total number of employee consultants increased from 328 at the end of the second quarter of fiscal 2002 to 348 at the end of the second quarter of fiscal 2003. Utilization was 71% for the second quarter of fiscal 2002 as compared with 73.5% for the second quarter of fiscal 2003. We experienced revenue increases during the second quarter of fiscal 2003 primarily in our chemicals and petroleum, energy and environment, materials and manufacturing, and finance practice areas. These increases were partially offset by a revenue decrease in our transportation practice area.

*Costs of Services.* Costs of services increased by \$8.0 million, or 46.3%, from \$17.3 million in the second quarter of fiscal 2002 to \$25.3 million in the second quarter of fiscal 2003. The increase was due primarily to an increase in the number of employee consultants and an overall increase in compensation expense for our employee consultants, and an increase in reimbursable expenses billed to clients. As a percentage of revenues, costs of services increased from 61.6% in the second quarter of fiscal 2002 to 62.8% in the second quarter of fiscal 2003. The increase as a percentage of revenues was due primarily to an increase in reimbursable expenses, such as out-of-pocket expenses and third-party fees billed to clients.

*Selling, General, and Administrative.* Selling, general, and administrative expenses increased by \$2.2 million, from \$8.1 million in the second quarter of fiscal 2002 to \$10.3 million in the second quarter of fiscal 2003. As a percentage of revenues, selling, general, and administrative expenses decreased from 29.1% in the second quarter of fiscal 2002 to 25.7% in the second quarter of fiscal 2003. The primary contributors to the decrease as a percentage of revenues were decreases in overall compensation for administrative staff, legal and other professional fees, travel expenses, and an overall increase in revenue at a greater rate than selling, general and administrative expenses, which includes rent and other costs that are fixed in nature. These decreases were partially offset by an increase in rent and related expenses in the second quarter of fiscal 2003 for additional estimated losses on a sublease in our D.C office and a revenue-related increase in commission payments to outside experts.

*Interest and Other Income, Net.* Net interest and other income increased by \$84,000, or 77%, from \$109,000 in the second quarter of fiscal 2002 to \$193,000 in the second quarter of fiscal 2003. This increase resulted primarily from unrealized foreign exchange gains, principally due to the weakening of the U.S. Dollar against British Pound Sterling, offset in part by lower interest income due to the overall decline in short-term interest rates.

*Provision for Income Taxes.* The provision for income taxes increased by \$1.0 million to \$2.0 million in the second quarter of fiscal 2003. Our effective income tax rate increased from 38.8% in the second quarter of fiscal 2002 to 41.8% in the second quarter of fiscal 2003. The lower rate in the first quarter of fiscal 2002 was due primarily to a one-time tax benefit related to the closure of a foreign office.

*Minority Interest.* Minority interest in the results of operations of NeuCo decreased from a loss of \$344,000 in the second quarter of fiscal 2002 to a loss of \$11,000 in the second quarter of fiscal 2003 due to a decrease in losses in NeuCo.



## **Results of Operations—Twenty-four weeks Ended May 10, 2002 Compared to Twenty-four weeks Ended May 16, 2003**

*Revenues.* Revenues increased \$22.8 million, or 43.7%, from \$52.2 million for the twenty-four weeks ended May 10, 2002 to \$75.0 million for the twenty-four weeks ended May 16, 2003. The increase in revenues was due primarily to an increase in the number of employee consultants, particularly as a result of the acquisition of the CEV business, an increase in utilization, increased billing rates for our employee consultants, and an increase in expenses billed to clients. Revenues derived from fixed-price engagements increased from 5.4% for the twenty-four weeks ended May 10, 2002 to 22.8% for the twenty-four weeks ended May 16, 2003. This increase is primarily due to the acquisition of CEV, which traditionally entered into fixed-price engagements. The total number of employee consultants increased from 328 at May 10, 2002 to 348 at May 16, 2003. Utilization was 69% for the twenty-four weeks ended May 10, 2002 as compared with 72% for the twenty-four weeks ended May 16, 2003. We experienced revenue increases in the twenty-four weeks ended May 16, 2003 primarily in our chemicals and petroleum, materials and manufacturing, finance, and energy and environment practice areas. These increases were partially offset by a revenue decrease in our transportation practice area.

*Costs of Services.* Costs of services increased by \$15.0 million, or 47.0%, from \$31.9 million in the twenty-four weeks ended May 10, 2002 to \$47.0 million in the twenty-four weeks ended May 16, 2003. The increase was due primarily to an increase in the number of employee consultants, an overall increase in compensation expense for our employee consultants, and an increase in reimbursable expenses billed to clients. As a percentage of revenues, costs of services increased from 61.2% in the twenty-four weeks ended May 10, 2002 to 62.6% in the twenty-four weeks ended May 16, 2003. The increase as a percentage of revenues was due primarily to an increase in reimbursable expenses, such as out-of-pocket expenses and third-party fees billed to clients.

*Selling, General, and Administrative.* Selling, general, and administrative expenses increased by \$4.6 million, from \$15.1 million in the twenty-four weeks ended May 10, 2002 to \$19.6 million in the twenty-four weeks ended May 16, 2003. As a percentage of revenues, selling, general, and administrative expenses decreased from 28.8% in the twenty-four weeks ended May 11, 2002 to 26.1% in the twenty-four weeks ended May 16, 2003. The primary contributors to the decrease as a percentage of revenues were decreases in overall compensation for administrative staff, legal and other professional fees, travel expenses, and an overall increase in revenue at a greater rate than selling, general and administrative expenses, which includes rent and other costs that are fixed in nature. These decreases were partially offset by an increase in rent and related expenses in the twenty-four weeks ended May 16, 2003 for estimated losses on subleases in our D.C. and downtown Los Angeles offices and a revenue-related increase in commission payments to outside experts.

*Interest and Other Income, Net.* Net interest and other income decreased by \$30,000, or 13.8%, from \$217,000 in the twenty-four weeks ended May 10, 2002 to \$187,000 in the twenty-four weeks ended May 16, 2003. This decrease resulted primarily from lower interest income due to the overall decline in short-term interest rates.

*Provision for Income Taxes.* The provision for income taxes increased by \$1.4 million to \$3.6 million in the twenty-four weeks ended May 16, 2003. Our effective income tax rate increased from 40.2% in the twenty-four weeks ended May 10, 2002 to 41.5% in the twenty-four weeks ended May 16, 2003. The lower rate in the twenty-four weeks ended May 10, 2002 was due primarily to a tax benefit 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 changed from a loss of \$316,000 in the twenty-four weeks ended May 10, 2002 to a profit of \$30,000 in the twenty-four weeks ended May 16, 2003 due to an increase in profits in NeuCo.

## **Liquidity and Capital Resources**

As of May 16, 2003, we had cash and cash equivalents of \$23.3 million, short-term and long-term investments of \$5.0 million, and working capital of \$43.5 million. Net cash provided by operating activities for the twenty-four weeks ended May 16, 2003 was \$7.6 million. Cash generated from operating activities of \$7.6 million resulted primarily from net income of \$5.0 million and an increase in accounts payable, accrued expenses and other liabilities of \$5.1 million, offset in part by an increase in accounts receivable of \$5.0 million.

Net cash used in investing activities for the twenty-four weeks ended May 16, 2003 was \$2.5 million, consisting of \$3.0 million used to purchase property and equipment, offset by net sales of investments of \$0.5 million.

Net cash used in financing activities for the twenty-four weeks ended May 16, 2003 was \$0.8 million, consisting principally of the final payments on notes payable in connection with the acquisition of a line of business from PA Consulting Group, Inc. in July 2001 and a payment made in March 2003 by NeuCo to repurchase and cancel shares from a minority interest stockholder.

In connection with our acquisition of the consulting business of Dr. Rausser, we loaned Dr. Rausser \$4.5 million, 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 our bank, which is secured by our accounts receivable. This line of credit automatically renews each year on June 30 unless terminated earlier by either our bank or us. No borrowings were outstanding under this line of credit as of May 16, 2003.

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 non-competition and non-solicitation 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 adversely 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. For example, NeuCo was not profitable in four of the last five fiscal years, which harmed our results of operations in those years. There are no assurances of NeuCo's performance in the future.

### ***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, 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 the great majority 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 U.S. Department of Justice and the U.S. Federal Trade Commission. The continuing economic slowdown 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.

***We enter into fixed-price engagements***

We derive a significant portion of our revenues from fixed-price contracts. 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. We have occasionally 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.

***Our business could suffer if we are unable to hire 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 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 fiscal 2001 and fiscal 2002, six of our exclusive outside experts generated engagements that accounted for approximately 28 percent and 21 percent of our revenues in those years, respectively. 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.

Twenty-eight of our outside experts have entered non-competition agreements with us as of May 16, 2003. 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, 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 any potential acquisition from which we may withdraw
- 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
- 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

As a result of the acquisition of the CEV business, we conduct a significant portion of our business in the Middle East. In light of the recent military conflict in the region, we were not able to conduct business in that region without interruption, which has slowed the flow of new opportunities and proposals, and could ultimately adversely affect our revenues and results of operations.

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
- fluctuations in revenues and results of operations of our subsidiary, NeuCo
- severe weather conditions and other factors affecting employee productivity
- collectibility of receivables

Because we generate the 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, 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 necessarily 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 may preclude 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, particularly 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. 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. Over the period from May 10, 2002 to May 16, 2003, the trading price of our common stock ranged from \$11.35 to \$22.91. 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 anti-takeover 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 16, 2003, we were exposed to market risks, which primarily include changes in U.S. interest rates and foreign currency exchange 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.

We are subject to risk from changes in foreign exchange rates for our subsidiaries that use a foreign currency as their functional currency. Operating accounts for our foreign subsidiaries are translated into U.S. dollars at average exchange rates for each reporting period and balance sheet accounts are translated using period-end exchange rates. The net gains or losses resulting from the changes in exchange rates are reported in comprehensive income.

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

(a) *Disclosure controls and procedures.* Within 90 days before filing this report, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Our disclosure controls and procedures are the controls and other procedures that we designed to ensure that we record, process, summarize and report in a timely manner the information we must disclose in reports that we file with or submit to the SEC. Based on our evaluation, our disclosure controls and procedures were reasonably effective.

(b) *Internal controls.* Since the date of the evaluation described above, there have not been any significant changes in our internal controls or in other factors that could significantly affect those controls.

## **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 18, 2003, we held our annual meeting of stockholders. Matters voted on and the results of those votes are set forth below:

1. Our stockholders elected Ronald T. Maheu to serve as a Class II director for a three-year term. The votes cast to elect the Class II director were 5,868,069 for and 810,370 withheld.
2. 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 5,790,538 for and 887,401 against. There were 500 abstentions on this proposal.

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

#### *Certification Under Sarbanes-Oxley Act*

Our Chief Executive Officer and Chief Financial Officer have furnished to the Securities and Exchange Commission the certification with respect to this quarterly report that is required by Section 906 of the Sarbanes-Oxley Act of 2002.

## ITEM 6. Exhibits and Reports on Form 8-K

### (a) *Exhibits*

Number	Description
10.1(1)	First Amendment to Stock Restriction Agreement dated as of March 27, 2003 among CRA and certain holders of pre-IPO stock

- (1) We incorporate the exhibit by reference to the similarly named document filed as an exhibit to our current report on Form 8-K filed May 13, 2003.

### (b) *Reports on Form 8-K*

On May 13, 2003, we filed a current report on Form 8-K, which reported an amendment to the stock restriction agreement we entered into with certain holders of our pre-IPO stock.



## 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 27, 2003

By: /s/ JAMES C. BURROWS

James C. Burrows  
President, Chief Executive Officer

Date: June 27, 2003

By: /s/ J. PHILLIP COOPER

J. Phillip Cooper  
Executive Vice President,  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

## CERTIFICATIONS

I, James C. Burrows, President and Chief Executive Officer of Charles River Associates Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charles River Associates Incorporated;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

By: /s/ JAMES C. BURROWS

President, Chief Executive Officer

I, J. Phillip Cooper, Executive Vice President and Chief Financial Officer of Charles River Associates Incorporated, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Charles River Associates Incorporated;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 27, 2003

By: /s/ J. PHILLIP COOPER

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J. Phillip Cooper  
Executive Vice President,  
Chief Financial Officer