# 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 February 20, 2004**

**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**<br>(State or other jurisdiction of incorporation or organization) | **04-2372210**<br>(I.R.S. Employer Identification No.) |
| **200 Clarendon Street, T-33, Boston, MA**<br>(Address of principal executive offices) | **02116-5092**<br>(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 March 30, 2004 CRA had outstanding 10,160,652 shares of common stock.

**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)*

| | Twelve Weeks Ended | |
|---|---|---|
| | February 20, 2004 | February 21, 2003 |
| Revenues | $38,501 | $34,785 |
| Costs of services | 21,960 | 21,698 |
| Gross profit | 16,541 | 13,087 |
| Selling, general and administrative expenses | 11,639 | 9,261 |
| Income from operations | 4,902 | 3,826 |
| Interest and other income (expense), net | (201) | (6) |
| Income before provision for income taxes and minority interest | 4,701 | 3,820 |
| Provision for income taxes | (2,021) | (1,572) |
| Income before minority interest | 2,680 | 2,248 |
| Minority interest | (107) | (41) |
| Net income | $ 2,573 | $ 2,207 |
| Net income per share: | | |
| Basic | $ 0.25 | $ 0.24 |
| Diluted | $ 0.24 | $ 0.24 |
| Weighted average number of shares outstanding: | | |
| Basic | 10,183 | 9,011 |
| Diluted | 10,734 | 9,165 |

*See accompanying notes.*

## Charles River Associates Incorporated

## Consolidated Balance Sheets

*(In thousands, except share data)*

| | February 20, 2004 *(unaudited)* | November 29, 2003 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 60,843 | $ 60,497 |
| Short-term investments | 32 | 32 |
| Accounts receivable, net of allowances of $1,742 in 2004 and $1,606 in 2003 for doubtful accounts | 31,040 | 31,942 |
| Unbilled services | 20,814 | 17,552 |
| Prepaid expenses and other assets | 1,903 | 3,152 |
| Deferred income taxes | 5,542 | 5,510 |
| Total current assets | 120,174 | 118,685 |
| Property and equipment, net | 12,861 | 12,703 |
| Goodwill | 24,750 | 24,750 |
| Intangible assets, net of accumulated amortization of $1,451 in 2004 and $1,366 in 2003 | 1,072 | 1,157 |
| Long-term investments | 5,047 | 5,154 |
| Other assets | 1,776 | 1,767 |
| Total assets | $165,680 | $164,216 |
| **Liabilities and stockholders' equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 8,624 | $ 9,590 |
| Accrued expenses | 25,812 | 27,508 |
| Deferred revenue and other liabilities | 1,774 | 1,597 |
| Current portion of notes payable to former stockholders | 1,079 | 1,038 |
| Total current liabilities | 37,289 | 39,733 |
| Notes payable to former stockholders, net of current portion | 1,571 | 1,571 |
| Deferred rent | 2,098 | 1,839 |
| Deferred income taxes | 1,259 | 1,192 |
| Minority interest | 1,957 | 1,850 |
| 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; 10,195,475 shares in 2004 and 10,176,777 in 2003 issued and outstanding | 73,111 | 72,792 |
| Receivable from stockholder | (4,500) | (4,500) |
| Deferred compensation | (24) | (40) |
| Retained earnings | 51,219 | 48,646 |
| Foreign currency translation | 1,700 | 1,133 |
| Total stockholders' equity | 121,506 | 118,031 |
| Total liabilities and stockholders' equity | $165,680 | $164,216 |

*See accompanying notes.*

**Charles River Associates Incorporated**

**Consolidated Statements of Cash Flows (unaudited)**

*(In thousands)*

| | Twelve Weeks Ended | |
|---|---|---|
| | February 20, 2004 | February 21, 2003 |
| **Operating activities:** | | |
| Net income | $ 2,573 | $ 2,207 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 611 | 730 |
| Deferred rent | 256 | 740 |
| Deferred income taxes | (4) | — |
| Minority interest | 107 | 42 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,326 | (3,151) |
| Unbilled services | (3,068) | 793 |
| Prepaid expenses and other assets | 1,343 | 382 |
| Accounts payable, accrued expenses, and other liabilities | (2,852) | 3,891 |
| Net cash provided by operating activities | 292 | 5,634 |
| **Investing activities:** | | |
| Purchase of property and equipment | (268) | (1,169) |
| Sale of investments, net | 107 | 831 |
| Net cash used in investing activities | (161) | (338) |
| **Financing activities:** | | |
| Payments on notes payable, net | — | (666) |
| Issuance of common stock upon exercise of stock options | 238 | — |
| Net cash provided by (used in) financing activities | 238 | (666) |
| Effect of foreign exchange rates on cash and cash equivalents | (23) | 80 |
| Net increase in cash and cash equivalents | 346 | 4,710 |
| Cash and cash equivalents at beginning of period | 60,497 | 18,846 |
| Cash and cash equivalents at end of period | $60,843 | $23,556 |
| Supplemental cash flow information: | | |
| Cash paid for income taxes | $ 611 | $ 359 |

*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 weeks ended February 20, 2004 and February 21, 2003, the consolidated balance sheet as of February 20, 2004, and the consolidated statements of cash flows for the twelve weeks ended February 20, 2004 and February 21, 2003, are unaudited. The November 29, 2003 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 accounting principles generally accepted in the United States 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 date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. 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 company founded by CRA and an affiliate of Commonwealth Energy Systems in June 1997. As of February 20, 2004, CRA's interest in NeuCo is 59.3 percent. In March 2003, NeuCo repurchased and cancelled shares from a minority interest stockholder, which increased CRA's interest in NeuCo to 59.7 percent from 49.7 percent. This transaction has been recorded as an adjustment of capital. The portion of the results of operations of NeuCo allocable to its other owners is shown as "minority interest" on CRA's statement of income, and that amount, along with the capital contributions to NeuCo of its other 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. Both fiscal 2004 and 2003 are 52-week years. 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 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 reimbursements, or 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):

| | Twelve Weeks Ended | |
|---|---|---|
| | February 20, 2004 | February 21, 2003 |
| Reimbursable expenses billed to clients | $5,049 | $5,167 |

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 are 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 on the provisions of SFAS No. 142. If CRA determines through the impairment review process that goodwill has been impaired, it would record the impairment charge in its statement of income. There were no impairment losses related to goodwill due to the application of SFAS No. 142 in fiscal 2003, nor were there any indications of impairment in the twelve weeks ended February 20, 2004.

Intangible assets consist principally of costs allocated to non-compete agreements, which are amortized on a straight-line basis over the related terms of the agreements (seven to ten years), and customer relationships, which are amortized on a straight-line basis over five 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 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 would be reduced to its estimated fair value.

### 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 | |
|---|---|---|
| | February 20, 2004 | February 21, 2003 |
| Basic weighted average shares outstanding | 10,183 | 9,011 |
| Weighted average equivalent shares | 551 | 154 |
| Diluted weighted average shares outstanding | 10,734 | 9,165 |

### 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), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" (collectively, SFAS No. 148).

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' respective vesting periods. CRA's pro forma information is as follows (in thousands, except for net income per share information):

| | Twelve Weeks Ended | |
|---|---|---|
| | February 20, 2004 | February 21, 2003 |
| Net income—as reported | $2,573 | $2,207 |
| Less stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit | $ (330) | $ (479) |
| Net income—pro forma | $2,243 | $1,728 |
| Basic net income per share—as reported | $ 0.25 | $ 0.24 |
| Basic net income per share—pro forma | $ 0.22 | $ 0.19 |
| Diluted net income per share—as reported | $ 0.24 | $ 0.24 |
| Diluted net income per share—pro forma | $ 0.21 | $ 0.19 |

The effect on pro forma net income and net income per share of expensing the fair value of stock options is not necessarily representative of the effects on reported results for future years.

### 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):

| | Twelve Weeks Ended | |
|---|---|---|
| | February 20, 2004 | February 21, 2003 |
| Net income | $2,573 | $2,207 |
| Change in foreign currency translation | 567 | 314 |
| Comprehensive income | $3,140 | $2,521 |

### 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 twelve weeks ended February 20, 2004 and February 21, 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.

### 14. Business Acquisition

On March 18, 2004, CRA announced that it has agreed to acquire privately held InteCap, Inc., a leading intellectual property consulting firm in the United States that specializes in economic, financial, and strategic issues related to intellectual property and complex commercial disputes. Under the terms of the agreement, CRA will purchase InteCap from InteCap's institutional investor, GTCR Golder Rauner, LLC, members of InteCap's management, and other shareholders for approximately $81.7 million, including an assumed $3.0 million liability. CRA plans to fund the purchase price from existing cash resources and borrowings under its $40.0 million line of credit. The acquisition has been approved by the boards of directors of both companies. The acquisition is expected to close in the second quarter of fiscal 2004, but remains subject to various closing conditions.

**15. Accounting Pronouncement**

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (as later amended in December 2003, FIN No. 46). FIN No. 46 is an interpretation of ARB No. 51 and addresses consolidation by business enterprises of variable interest entities, or VIEs. This interpretation is based on the theory that an enterprise controlling another entity through interests other than voting interests should consolidate the controlled entity. Business enterprises are required under the provisions of this interpretation to identify VIEs, based on specified characteristics, and then determine whether they should be consolidated. An enterprise that holds a majority of the variable interests is considered the primary beneficiary and is the enterprise that should consolidate the VIE. The primary beneficiary of a VIE is also required to include various disclosures in its interim and annual financial statements. Additionally, an enterprise that holds a significant variable interest in a VIE, but that is not the primary beneficiary, is also required to make certain disclosures. This interpretation, as amended, is effective for all enterprises with a variable interest in VIEs created after January 31, 2003. For variable interests in a VIE created before February 1, 2003 CRA would be required to apply the provisions of this interpretation to that entity by the end of the first interim or annual reporting period that ends after March 15, 2004. As of February 20, 2004, CRA had no interests in any VIE. CRA does not believe that the adoption of this interpretation will have a material impact on its consolidated financial statements.

## 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 review carefully 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.

Our principal internet address is www.crai.com. Our website provides a link to a third-party website through which our annual, quarterly and current reports, 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.

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

### Critical Accounting Policies

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, as well as 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 our assumptions based on past experience or our 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, 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 and generally last three to six months, although some of our engagements can be much longer in duration. Each contract must be approved by one of our vice presidents.

We recognize substantially all of our revenues 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 terms set forth in the contract, and are indicative of the level of benefit provided to our clients. Our fixed-price 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 reimbursements, or 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):

| | Twelve Weeks Ended | |
|---|---|---|
| | **February 20, 2004** | **February 21, 2003** |
| Reimbursable expenses billed to clients | $5,049 | $5,167 |

We recognize revenues 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 twelve weeks ended February 20, 2004 and February 21, 2003, our average days sales outstanding for billed and unbilled accounts receivable were 108 days and 103 days, respectively. We calculate DSOs by dividing the sum of our accounts receivable and unbilled services balance, net of deferred revenue, at the end of the quarter by daily revenues. Daily revenues are calculated by dividing quarter revenues by the number of days in a quarter. Our project managers and finance personnel monitor 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 February 20, 2004 and November 29, 2003, $1.7 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 Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" (SFAS No. 142). 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 indicators of impairment. There were no impairment losses related to goodwill due to the application of SFAS No. 142 in fiscal 2003, nor were there any indications of impairment in the twelve weeks ended February 20, 2004. 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 February 20, 2004.

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; and
- our market capitalization relative to net book value.

As part of this assessment, we 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 $1.1 million as of February 20, 2004.

*Accounting for Income Taxes.* We record income taxes using the 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 carryforwards. Our financial statements contain certain deferred tax assets and liabilities that result from temporary differences between book and tax accounting, as well as net operating loss carryforwards. 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 valuation allowances in certain of these foreign subsidiaries based on the facts and circumstances affecting each subsidiary. Had we not recorded these allowances, we would have reported a lower effective tax rate than that recognized in our statements of income in fiscal 2003. 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. 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 February 20, 2004 Compared to Twelve weeks Ended February 21, 2003**

*Revenues.* Revenues increased $3.7 million, or 10.7%, to $38.5 million for the first quarter of fiscal 2004 from $34.8 million for the first quarter of fiscal 2003. We experienced revenue increases during the first quarter of fiscal 2004 primarily in our finance and competition practice areas, as well as an increase in NeuCo revenue. These increases were partially offset by a revenue decrease in our materials and manufacturing and chemicals and petroleum practice areas. The increase in revenues was effected by an increase in utilization and increased billing rates for our employee consultants. The total number of employee consultants increased to 350 at the end of the first quarter of fiscal 2004 from 348 at the end of the first quarter of fiscal 2003. Utilization was 74% for the first quarter of fiscal 2004 as compared with 71% for the first quarter of fiscal 2003. Revenues derived from fixed-price engagements decreased to 9.3% of total revenues for the first quarter of fiscal 2004 from 25.9% for the first quarter of fiscal 2003.

*Costs of Services.* Costs of services increased by $0.3 million, or 1.2%, to $22.0 million in the first quarter of fiscal 2004 from $21.7 million in the first quarter of fiscal 2003. The increase was due primarily to an overall increase in compensation expense for our employee consultants of $0.3 million. Reimbursable expenses decreased $0.1 million, or 2.3%, to $5.1 million from $5.2 million. As a percentage of revenues, costs of services decreased to 57.0% in the first quarter of fiscal 2004 from 62.4% in the first quarter of fiscal 2003. The decrease as a percentage of revenues was due primarily to increased leverage arising from higher utilization of our employee consultants.

*Selling, General, and Administrative.* Selling, general, and administrative expenses increased by $2.4 million, or 25.7%, to $11.6 million in the first quarter of fiscal 2004 from $9.3 million in the first quarter of fiscal 2003. The increase was due to an increase in commission payments to outside experts of $1.0 million, an increase in overall compensation to our administrative staff of $0.4 million, an increase in bad debt expense of $0.3 million, and an increase in other selling, general and administrative expenses of $0.7 million. As a percentage of revenues, selling, general, and administrative expenses increased to 30.2% in the first quarter of fiscal 2004 from 26.6% in the first quarter of fiscal 2003. The primary contributors to the increase as a percentage of revenues were relative increases in commission payments to outside experts, bad debt expense, legal and other professional fees, recruiting fees, and travel expenses. These increases were partially offset by the relative decreases in rent and other costs that are principally fixed in nature, due to an overall increase in revenue at a greater rate than the increases in those selling, general, and administrative expenses.

*Interest and Other Income (Expense), Net.* Net interest and other expense increased by $195,000, to $201,000 in the first quarter of fiscal 2004 from $6,000 in the first quarter of fiscal 2003. This increase resulted primarily from foreign exchange losses. Interest income increased slightly due to the overall increase in cash and investment balances.

*Provision for Income Taxes.* The provision for income taxes increased by $0.4 million, to $2.0 million in the first quarter of fiscal 2004 from $1.6 million in the first quarter of fiscal 2003. Our effective income tax rate increased to 43.0% in the first quarter of fiscal 2004 from 41.2% in the first quarter of fiscal 2003. The lower rate in the first quarter of fiscal 2003 was due primarily to the expected tax benefits to be realized in fiscal 2003 by utilizing certain foreign net operating losses incurred in prior years. For fiscal 2003 our tax rate was 43.0%.

*Minority Interest.* Minority interest in the results of operations of NeuCo changed to $107,000 in the first quarter of fiscal 2004 from $41,000 in the first quarter of fiscal 2003 due to an increase in profits in NeuCo.

*Net Income.* Net income increased by $0.4 million, or 16.6%, to $2.6 million in the first quarter of fiscal 2004 from $2.2 million in the first quarter of fiscal 2003. Diluted net income per share remained unchanged at $0.24 per share. Net income increased at a greater rate than diluted net income per share due to the dilutive impact of the additional shares issued as a result of: the public offering of our common stock completed in August 2003; the exercise of approximately 728,000 stock options during fiscal 2003; and an increase in the number of outstanding in-the-money stock options.

**Liquidity and Capital Resources**

*General.* In the first quarter of fiscal 2004, we had a net increase in cash and cash equivalents of $0.3 million. We completed the quarter with cash and cash equivalents of $60.8 million, short-term and long-term investments of $5.1 million, and working capital of $82.9 million.

On March 18, 2004, we announced that we have agreed to acquire InteCap, Inc. Under the terms of the agreement, we will purchase InteCap from InteCap's institutional investor, GTCR Golder Rauner, LLC, members of InteCap's management, and other shareholders for approximately $81.7 million, including an assumed $3.0 million liability. We will pay approximately $78.7 million in cash upon closing of this transaction. We plan to fund the purchase price from existing cash resources and borrowings under our line of credit. We expect to complete the acquisition in the second quarter of fiscal 2004, but completion of the acquisition is subject to various closing conditions. While we have sufficient sources of cash to complete this acquisition, because of the size of the acquisition, we may seek to augment our existing financial resources by pursuing other forms of debt or equity financing, including public and private offerings of our common stock, convertible subordinated debt, or other securities, as well as additional lines of credit. If we decide to pursue any of the foregoing means of raising additional capital, there can be no assurance that we will be able to complete any transaction on terms acceptable to us.

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

*Sources of Cash in the twelve weeks ended February 20, 2004.* During the first quarter of fiscal 2004, we generated cash primarily from two sources: cash provided by our operating activities and proceeds from the exercise of stock options. Our operating activities provided net cash of $0.3 million, resulting primarily from net income of $2.6 million, a decrease in accounts receivable of $1.3 million, and a decrease in prepaid expenses and other assets of $1.3 million. The increase in cash generated from operating activities was offset in part by a decrease in accounts payable, accrued expenses and other liabilities of $2.9 million. During the first quarter of fiscal 2004, we received $238,000 in proceeds from the exercise of stock options.

*Additional Cash Resources.* On January 14, 2004, we entered into a senior loan agreement with Citizens Bank of Massachusetts for a two-year, $40.0 million revolving line of credit. Subject to the terms of the agreement, we may use borrowings under this line of credit for acquisition financing, working capital, general corporate purposes, letters of credit, and foreign exchanges contracts. As of February 20, 2004, no borrowings were outstanding under this line of credit. We must repay any borrowings under the line of credit no later than January 14, 2006.

Borrowings under our credit facility bear interest, at our option, either at LIBOR plus an applicable margin or at the prime rate. Applicable margins range from 0.75% to 1.50%, depending on the ratio of our consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA, for the preceding four fiscal quarters, subject to various adjustments stated in the senior loan agreement. These margins are adjusted both quarterly and each time we borrow under the credit facility. A commitment fee of 0.18% is payable on the unused portion of the credit facility. Borrowings under the credit facility are secured by 100% of the stock of our U.S. subsidiary

CRA Security Corporation and by 65% of the stock of our foreign subsidiaries, amounting to net assets of approximately $27.5 million as of February 20, 2004.

As part of our business, we regularly evaluate opportunities to acquire other consulting firms, practices or groups or other businesses. In recent years, we have typically paid for acquisitions with cash, and we may continue to do so in the future. To pay for an acquisition, we may use cash on hand, cash generated from our operations or borrowings under our revolving credit facility, or we may pursue other forms of debt or equity financing, including public and private offerings of common stock, convertible subordinated debt securities, or other securities, as well as additional lines of credit. Our ability to secure short-term and long-term debt or equity financing in the future will depend on several factors, including our future profitability, the levels of our debt and equity and the overall credit and equity market environments.

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. In March 2004, Dr. Rausser satisfied $2.5 million of this obligation by selling us 73,531 shares of our common stock and paying us the balance in cash. The remaining $2.0 million is scheduled to be repaid in November 2004 and is collateralized by shares of our common stock.

*Uses of Cash in the twelve weeks ended February 20, 2004.* During first quarter of fiscal 2004, we used cash primarily for capital expenditures. We spent $0.3 million to purchase property and equipment.

*Debt Restrictions.* Under our senior credit agreement, we must comply with various financial and non-financial covenants. The financial covenants require us to maintain a minimum consolidated working capital of $25.0 million and require us to comply with a consolidated total debt to EBITDA ratio of not more than 3.5 to 1.0 and a consolidated senior debt to EBITDA ratio of not more than 2.0 to 1.0. Compliance with these financial covenants is tested on a fiscal quarterly basis, commencing with the first quarter of fiscal 2004. Also, the senior credit agreement prohibits us from paying dividends and places restrictions on our ability to incur additional indebtedness, repurchase our securities, make acquisitions and dispositions, and enter into business combinations. Any indebtedness outstanding under the senior credit facility may become immediately due and payable upon the occurrence of stated events of default, including our failure to pay principal, interest or fees or a violation of any financial covenant.

As of February 20, 2004, we were in compliance with our covenants under the senior credit agreement.

*Impact of Inflation.* 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 capabilities of our employee consultants. In particular, our employee consultants' personal relationships with our clients are a critical element in obtaining and maintaining client engagements. If we lose the services of any employee consultant or if our employee consultants fail to generate business or otherwise fail to perform effectively, that loss or failure could adversely affect our revenues and results of operations. We do not have any employment agreements with most of our employee consultants, and they can terminate their relationships with us at will and without notice. The non-competition and non-solicitation agreements that we have with some of our employee consultants offer us only limited protection and may not be enforceable in every jurisdiction.

***Our failure to manage growth successfully could adversely affect our revenues and results of operations***

Any failure on our part to manage growth successfully could adversely affect our revenues and results of operations. Over the last several years, we have continued to open offices in new geographic areas, including foreign locations, and to expand our employee base as a result of internal growth and acquisitions. We expect that this trend will continue over the long term. Opening and managing new offices often requires extensive management supervision and increases our overall selling, general, and administrative expenses. Expansion creates new and increased management, consulting, and training responsibilities for our employee consultants. Expansion also increases the demands on our internal systems, procedures, and controls, and on our managerial, administrative, financial, marketing, and other resources. We depend heavily upon the managerial, operational, and administrative skills of our 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, our majority-owned software subsidiary, was not profitable in three of the last five fiscal years, which harmed our results of operations in those years.

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

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

***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 adversely affect our revenues and results of operations. We derived 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 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 recent economic slowdown may continue to have an adverse effect on mergers and acquisitions activity, which has reduced the number and scope of our engagements in this practice area in recent periods. 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. These contracts are more common in our business consulting practice, and would likely grow in number with any expansion of that practice. If we fail to estimate accurately the resources required for a fixed-price project or fail to satisfy our contractual obligations in a manner consistent with the project budget, we might generate a smaller profit or incur a loss on the project. On occasion, we have had to commit unanticipated additional resources to complete projects, and we may have to take similar action in the future, which could adversely affect our revenues and results of operations.

***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 limit our ability to accept or complete engagements and adversely affect our revenues and results of operations. Relatively few potential employees meet our hiring criteria, and we face significant competition for these employees from our direct competitors, academic institutions, government agencies, research firms, investment banking firms, and other enterprises. Many of these competing employers are able to offer potential employees 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 2003 and fiscal 2002, six of our exclusive outside experts generated engagements that accounted for approximately 22% and 21% 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.

As of February 20, 2004, we had non-competition agreements with 34 of our outside experts. The limitation or termination of any of their relationships with us, or competition from any of them after these agreements expire, could harm our reputation, reduce our business opportunities and adversely affect our revenues and results of operations.

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.

***The acquisition of InteCap is not complete***

We have not completed our acquisition of InteCap, and the acquisition is subject to several closing conditions. These closing conditions include, among other matters, the absence of any material adverse effect on InteCap, the execution of employment agreements with a group of InteCap's key managing directors, reasonably satisfactory assurances that the merger does not create more than a specified number of irreconcilable client conflicts, and the execution of general releases by certain InteCap employees, which InteCap has made a condition to the receipt by those employees of certain payments specified in the merger agreement. In addition, the merger agreement may be terminated by either party if the merger is not completed by May 31, 2004. If any of the closing conditions is not satisfied, we may be unwilling or unable to complete the acquisition, which may adversely affect our business and business prospects and may also cause the market price of our common stock to decline.

***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 pending acquisition of InteCap, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the financial, operational, and other benefits we anticipate from 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 financial and business risks, such as:

- 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 including compliance with the Sarbanes-Oxley Act of 2002;
- dilutive issuances of equity securities;
- the assumption of legal liabilities;
- amortization of acquired intangible assets;
- potential write-offs related to the impairment of goodwill;
- difficulties in integrating diverse corporate cultures; and
- additional conflicts of interests.

***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 financial and business risks, including:

- greater difficulties in managing and staffing foreign operations;
- cultural differences that result in lower 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; and
- civil disturbances or other catastrophic events that reduce business activity.

We conduct a portion of our business in the Middle East. The recent military conflict in the region has significantly interrupted our business operations in that region and has slowed the flow of new opportunities and proposals, which ultimately has adversely affected our revenues and results of operations.

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

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

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

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

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

- the number of weeks in our fiscal 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;
- the extent to which our employee consultants take holiday, vacation, and sick time;
- employee hiring;
- the extent of fees discounting or cost overruns;
- fluctuations in revenues and results of operations of our software subsidiary, NeuCo;
- severe weather conditions and other factors affecting employee productivity; and
- collectibility of receivables and unbilled work in process.

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 are not necessarily indicative of 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 business interests or positions on disputed issues or other reasons. Accordingly, the nature of our business limits the number of both potential clients and potential engagements. Moreover, in many industries in which we provide consulting services, such as in the telecommunications industry, there has been a continuing trend toward business consolidations and strategic alliances. These consolidations and alliances reduce the number of potential clients for our services and increase the chances that we will be unable to continue some of our ongoing engagements or accept new engagements as a result of conflicts of interests.

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

Our ability to secure new engagements and hire qualified consultants as employees depends heavily on our overall reputation as well as the individual reputations of our employee consultants and principal 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. Given the frequently high-profile nature of the matters on which we work, any factor that diminishes our reputation or the reputations of any of our employee consultants or outside experts could make it substantially more difficult for us to compete successfully for both new engagements and qualified consultants.

***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 and financial 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 or international reputations as well as significantly greater personnel, financial, managerial, technical, and marketing resources than we do, which could enhance their ability to respond more quickly to technological changes, finance acquisitions, and fund internal growth. Some of our competitors also have a significantly broader geographic presence 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.

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

Our stock price has been volatile. Over the period from February 22, 2003 to February 20, 2004, the trading price of our common stock ranged from $16.01 to $37.76. 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; and
- market conditions in the industry and the economy as a whole.

In addition, the stock market has recently experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company's stock drops significantly, 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 February 20, 2004, 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. We do not currently enter into foreign exchange agreements to hedge our exposure, but we may do so in the future.

## ITEM 4. Controls and Procedures

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

The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of internal controls, and the risk of fraud. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

During the first quarter of fiscal 2004, there were no changes in our internal control over financial reporting that have affected, or are reasonably likely to affect, materially our internal control over financial reporting.

# 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 6. Exhibits and Reports on Form 8-K

(a) *Exhibits*

| Item No. | Description |
|---|---|
| 10.1 | Loan agreement dated as of January 14, 2004 between CRA and Citizens Bank of Massachusetts |
| 10.2 | Stock pledge agreement dated as of January 14, 2004 between CRA and Citizens Bank of Massachusetts |
| 31.1 | Rule 13a-14(a)/15d-14(a) certification of principal executive officer |
| 31.2 | Rule 13a-14(a)/15d-14(a) certification of principal financial officer |
| 32.1 | Section 1350 certification |

(b) *Reports on Form 8-K*

On January 15, 2004, we filed a current report on Form 8-K, which furnished information under Item 12 regarding our financial results for our fiscal quarter ended November 29, 2003.

## 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: April 1, 2004

By: /s/ JAMES C. BURROWS

James C. Burrows
President, Chief Executive Officer

Date: April 1, 2004

By: /s/ J. PHILLIP COOPER

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

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