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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 September 3, 2004

or

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

Commission file number: 000-24049

Charles River Associates Incorporated

(Exact name of registrant as specified in its charter)

Massachusetts (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)

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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No o

As of October 12, 2004, CRA had outstanding 9,826,630 shares of common stock.

Charles River Associates Incorporated

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Charles River Associates Incorporated

Condensed Consolidated Statements of Income (unaudited)

(In thousands, except per share data)

	Sixteen Weeks Ended		Forty Weeks Ended	
	September 3, 2004	September 5, 2003	September 3, 2004	September 5, 2003
Revenues	$ 74,205	$ 49,410	$ 158,400	$ 124,440
Costs of services	45,569	30,029	94,114	76,988
Gross profit	28,636	19,381	64,286	47,452
Selling, general and administrative expenses	17,216	13,342	41,187	32,952
Income from operations	11,420	6,039	23,099	14,500
Interest income	236	107	618	292
Interest expense	(747)	(5)	(874)	(28)
Other expense	(206)	(187)	(214)	(162)
Income before provision for income taxes and minority interest	10,703	5,954	22,629	14,602
Provision for income taxes	(5,507)	(2,542)	(10,635)	(6,131)
Income before minority interest	5,196	3,412	11,994	8,471
Minority interest	177	(11)	(20)	(41)
Net income	$ 5,373	$ 3,401	$ 11,974	$ 8,430
Net income per share:				
Basic	$ 0.54	$ 0.36	$ 1.19	$ 0.92
Diluted	$ 0.52	$ 0.34	$ 1.13	$ 0.88
Weighted average number of shares outstanding:				
Basic	9,909	9,478	10,072	9,201
Diluted	10,352	10,010	10,564	9,561

See accompanying notes.

Charles River Associates Incorporated

Condensed Consolidated Balance Sheets (unaudited)

(In thousands, except share data)

	September 3, 2004	November 29, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 59,989	$ 60,497
Short-term investments	23	32
Accounts receivable, net of allowances for doubtful accounts of $2,156 in 2004 and $1,606 in 2003	48,184	31,942
Unbilled services	22,269	17,552
Prepaid expenses and other assets	2,573	3,152
Deferred income taxes	5,547	5,510
Total current assets	138,585	118,685
Property and equipment, net	16,896	12,703
Goodwill	94,512	24,750
Intangible assets, net of accumulated amortization of $1,802 in 2004 and $1,366 in 2003	2,558	1,157
Long-term investments	3,281	5,154
Other assets	4,620	1,767
Total assets	$ 260,452	$ 164,216
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 8,869	$ 9,590
Accrued expenses	33,447	27,508
Deferred revenue and other liabilities	3,744	1,597
Current portion of notes payable to former stockholders	840	1,038
Total current liabilities	46,900	39,733
Notes payable to former stockholders, net of current portion	1,461	1,571
Convertible debentures payable	90,000	—
Deferred rent	3,017	1,839
Deferred compensation	2,865	—
Deferred income taxes	1,990	1,192
Minority interest	1,870	1,850
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; 9,734,665 and 10,176,777 shares issued and outstanding in 2004 and 2003, respectively.	55,781	72,792
Notes receivable from stockholders	(5,315)	(4,500)
Deferred compensation	(18)	(40)
Retained earnings	60,620	48,646
Foreign currency translation	1,281	1,133
Total stockholders' equity	112,349	118,031
Total liabilities and stockholders' equity	$ 260,452	$ 164,216

See accompanying notes.

Charles River Associates Incorporated

Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Forty Weeks Ended	
	September 3, 2004	September 5, 2003
Operating activities:		
Net income	$ 11,974	$ 8,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,580	2,828
Deferred rent	(289)	484
Deferred income taxes	(28)	25
Minority interest	20	41
Changes in operating assets and liabilities:		
Accounts receivable	(5,327)	(3,356)
Unbilled services	163	8
Prepaid expenses and other assets	672	(508)
Accounts payable, accrued expenses, and other liabilities	2,678	10,392
Net cash provided by operating activities	13,443	18,344
Investing activities:		
Purchase of property and equipment	(6,212)	(4,519)
Sale of investments, net	1,882	332
Acquisition of business, net of cash acquired	(79,074)	—
Net cash used in investing activities	(83,404)	(4,187)
Financing activities:		
Proceeds from line of credit	39,600	—
Payment on line of credit	(39,600)	—
Payments on notes payable, net	—	(683)
Payments on notes payable to former stockholders	(308)	(312)
Collections on receivables from stockholders	69	—
Proceeds from convertible debt offering	90,000	—
Payment of debt issuance costs	(2,834)	—
Issuance of common stock upon exercise of stock options	2,551	10,314
Issuance of common stock, net of offering costs	—	15,077
Repurchase of common stock	(19,998)	—
Payment for repurchase of minority interest shares in subsidiary	—	(300)
Net cash provided by financing activities	69,480	24,096
Effect of foreign exchange rates on cash and cash equivalents	(27)	214
Net increase (decrease) in cash and cash equivalents	(508)	38,467
Cash and cash equivalents at beginning of period	60,497	18,846
Cash and cash equivalents at end of period	$ 59,989	$ 57,313
Non-cash financing activities:		
Notes receivable in exchange for shares	$ 3,315	—
Repurchase of shares in exchange for note receivable	$ 2,431	—
Supplemental cash flow information:		
Cash paid for income taxes	$ 11,734	$ 6,897

See accompanying notes.

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.

On April 30, 2004, CRA completed its acquisition of InteCap, Inc. ("InteCap"), 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.

2. Unaudited Interim Consolidated Financial Statements and Estimates

The condensed consolidated statements of income for the sixteen and forty weeks ended September 3, 2004, and September 5, 2003, the condensed consolidated balance sheet as of September 3, 2004, and the condensed consolidated statements of cash flows for the forty weeks ended September 3, 2004, and September 5, 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 consolidated statements of income include the operations of InteCap since May 1, 2004. See Note 15.

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 September 3, 2004, CRA's interest in NeuCo is 58.8 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 consolidated 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

CRA recognizes substantially all of its revenues under written service contracts with its clients where the fee is fixed or determinable, as the services are provided, and only in those situations where collection from the client is reasonably assured. The majority of CRA's revenues are derived from time-and-materials service contracts. Revenues from time-and-materials service contracts are recognized as services are provided based upon hours worked and contractually agreed-upon hourly rates, as well as 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, including travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. These reimbursable expenses included in revenues are as follows (in thousands):

	Sixteen Weeks Ended		Forty Weeks Ended	
	September 3, 2004	September 5, 2003	September 3, 2004	September 5, 2003
Reimbursable expenses billed to clients	$ 10,554	$ 7,451	$ 21,961	$ 19,255

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. Deferred revenue represents amounts billed or collected in advance of services performed.

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 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 forty weeks ended September 3, 2004.

Other 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), as well as customer relationships, trade names, and property leases which are amortized on a straight-line basis over their remaining useful lives (two to ten years). The weighted average useful life is seven 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. Stockholders' Equity

In June 2004, CRA repurchased 622,200 shares of its common stock for $20.0 million with proceeds from the debenture offering. See Note 17. In addition, 86,647 and 166,303 options were exercised for $1.4 million and $2.5 million of proceeds during the sixteen and forty weeks ended September 3, 2004, respectively.

11. 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):

	Sixteen Weeks Ended		Forty Weeks Ended	
	September 3, 2004	September 5, 2003	September 3, 2004	September 5, 2003
Basic weighted average shares outstanding	9,909	9,478	10,072	9,201
Weighted average equivalent shares	443	532	492	360
Diluted weighted average shares outstanding	10,352	10,010	10,564	9,561

In accordance with SFAS No. 128, "Earnings per Share," the basic and diluted weighted average shares outstanding (and therefore the calculation of basic and diluted earnings per share on the consolidated statements of income) for the sixteen and forty weeks ended September 3, 2004, exclude the potential common shares underlying the $90 million of convertible senior subordinated debentures issued during the third quarter of fiscal 2004. There was no dilutive effect from the debentures because none of the contingencies has been met as of September 3, 2004. See Note 16 for further discussion of the potential impact from the debentures on CRA's diluted weighted average shares outstanding. See Note 17 for further discussion of the offering of convertible senior subordinated debentures.

12. 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). Per APB 25, compensation expense is recognized for stock options to the extent the fair value of CRA common stock exceeds the stock option exercise price at the measurement date. CRA has issued stock options with exercise prices at the fair value of CRA's common stock at the date of grant; therefore, no compensation expense has been recorded for the sixteen or forty weeks ended September 3, 2004, and September 5, 2003.

CRA has also elected the disclosure-only alternative under SFAS No. 123. The following table illustrates the effect on net income and earnings per share if CRA had applied the fair value recognition provisions of SFAS No. 123 (in thousands, except for net income per share information):

	Sixteen Weeks Ended		Forty Weeks Ended	
	September 3, 2004	September 5, 2003	September 3, 2004	September 5, 2003
Net income, as reported	$ 5,373	$ 3,401	$ 11,974	$ 8,430
Less stock-based compensation expense determined under fair value method, net of related income tax benefit	(1,400)	(578)	(2,102)	(1,551)
Net income, pro forma	$ 3,973	$ 2,823	$ 9,872	$ 6,879
Basic net income per share, as reported	$ 0.54	$ 0.36	$ 1.19	$ 0.92
Basic net income per share, pro forma	$ 0.40	$ 0.30	$ 0.98	$ 0.75
Diluted net income per share, as reported	$ 0.52	$ 0.34	$ 1.13	$ 0.88
Diluted net income per share, pro forma	$ 0.38	$ 0.28	$ 0.93	$ 0.72

For purposes of this disclosure under SFAS No. 123, the estimated fair value of the options is amortized over the options' respective vesting periods. The effect on pro forma net income and net income per share is not necessarily representative of the effects on reported results for future years.

13. Comprehensive Income

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

	Forty Weeks Ended	
	September 3, 2004	September 5, 2003
Net income	$ 11,974	$ 8,430
Change in foreign currency translation	148	516
Comprehensive income	$ 12,122	$ 8,946

14. 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 forty weeks ended September 3, 2004, and September 5, 2003 has been reported in comprehensive income. Transaction gains and losses are recorded in other expense in the consolidated statements of income.

15. Business Acquisition

On April 30, 2004, CRA completed its acquisition of 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. CRA purchased InteCap from InteCap's institutional investor, GTCR Golder Rauner, LLC, members of InteCap's management, and other shareholders for approximately $79.3 million (after deducting cash acquired, and adding acquisition costs and transaction fees paid or accrued). CRA funded the purchase price from existing cash resources and borrowings of $39.6 million under its $40.0 million line of credit. In connection with the acquisition, certain InteCap employees purchased an aggregate of 87,316 shares of common stock in exchange for full recourse notes totaling approximately $2.9 million. The notes mature in June 2007, and bear interest at 1.47% per annum.

The acquisition added approximately 130 consulting professionals to CRA. The addition of InteCap expanded CRA's geographic footprint into key markets such as Chicago and New York, and strengthened its presence in Houston, Silicon Valley, Boston and Washington, D.C. InteCap's operating results have been included in the accompanying statements of income beginning May 1, 2004.

The following is a preliminary allocation of the purchase price to the estimated fair value of assets acquired and liabilities assumed. This preliminary allocation is based upon management's estimates and the valuation of the intangible assets by a third-party appraiser. CRA will finalize the purchase price allocation as it receives other relevant information relating to the acquisition, including an analysis of approximately $17 million of net deferred tax assets that were fully reserved at the time of the acquisition. If CRA determines that the reserve on these tax assets is not needed, the allocation of the purchase price will be adjusted in future periods. CRA is in the process of completing the allocation of the purchase price associated with these assets. The final purchase price allocation may be different from the preliminary estimate presented below. The impact of any adjustments to the final purchase price allocation is not expected to be material to CRA's results of operations for this period.

Assets:		
Accounts receivable	$	10,849
Unbilled services		4,827
Prepaid expenses and other current assets		242
Property and equipment		998
Intangible assets		1,837
Goodwill		69,766
Other assets		258
Total assets acquired	$	88,777
Liabilities:		
Accounts payable	$	686
Accrued expenses		3,668
Deferred compensation		2,865
Restructuring reserve		800
Deferred income taxes		770
Deferred rent		668
Total liabilities assumed		9,457
Net assets acquired	$	79,320

Intangible assets acquired consist principally of non-competition agreements, the InteCap trade name, and property leases. These assets, which have determinable useful lives, are amortized on a straight-line basis over their remaining useful lives, which range from two to ten years. The weighted average useful life is 6.8 years. Goodwill is not expected to be deductible for income tax purposes.

In connection with the acquisition, CRA incurred $0.8 million of restructuring costs as a result of the elimination of duplicate offices and employee termination benefit payments. Such costs have been recognized by CRA as a liability assumed as of the acquisition date, resulting in additional goodwill. These restructuring costs consisted of $0.7 million of lease obligations related to the closed facilities and $0.1 million of payments for three terminated employees. As of September 3, 2004, $0.1 million in payments to terminated employees and $0.1 million in lease obligations have been paid. The remaining restructuring reserve balance as of September 3, 2004, is $0.6 million, and includes lease obligations that will be paid through September 2006.

The following unaudited pro forma financial information reflects consolidated results of operations of CRA as if the acquisition of InteCap had taken place on December 1, 2002, the beginning of CRA's 2003 fiscal year. The pro forma adjustments include elimination of transaction-related compensation and other costs of approximately $18.1 million, which were incurred by InteCap, additional interest expense related to the line of credit borrowings used to finance the acquisition, a reduction of interest expense for InteCap's debt prior to the acquisition, additional intangible amortization related to the estimated intangible assets acquired, a reduction of InteCap's intangible amortization prior to the acquisition, and the related income tax effects of these adjustments. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred if the

InteCap acquisition had been completed on December 1, 2002, nor are they necessarily indicative of future operating results.

	Sixteen Weeks Ended		Forty Weeks Ended	
	September 3, 2004	September 5, 2003	September 3, 2004	September 5, 2003
	(In thousands, except for per share information)			
Revenues	$ 74,205	$ 65,018	$ 183,929	$ 167,168
Net income	$ 5,373	$ 3,596	$ 12,837	$ 8,698
Net income per share:				
Basic	$ 0.54	$ 0.38	$ 1.27	$ 0.95
Diluted	$ 0.52	$ 0.36	$ 1.22	$ 0.91
Weighted average number of shares outstanding:				
Basic	9,909	9,478	10,072	9,201
Diluted	10,352	10,010	10,564	9,561

Year-to-year comparability of the above pro forma results of operations may not be representative because InteCap's results include bonus expense subject to an employment retention contingency. Such bonuses, accordingly, were not matched to the revenues for which the bonuses were earned.

16. Accounting Pronouncements

At its September 29-30, 2004, meeting the Emerging Issues Task Force of the Financial Accounting Standards Board (the "EITF") reached a conclusion on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share," that contingently convertible debt instruments ("Co-Cos") will be subject to the if-converted method under SFAS No. 128, "Earnings Per Share," regardless of the stock price-related contingent features included in the instrument (contingent price triggers, parity triggers, etc.). Furthermore, the FASB has proposed an amendment to SFAS No. 128. This proposed amendment would allow treasury method accounting only if the issuer were to commit contractually and irrevocably, to settle the par value in cash. If the proposed amendment to SFAS 128 is passed, in order to use the treasury stock method of accounting, CRA would be required to commit, contractually and irrevocably, to settle the par value of the debentures in cash. The proposed effective date of EITF 04-8 and the proposed amendment to SFAS No. 128 is expected to be for reporting periods ending after December 15, 2004.

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. This interpretation, as amended, is effective for all enterprises with a variable interest in VIEs created after January 31, 2003. As of September 3, 2004, CRA had no interests in any VIE. Adoption of this interpretation did not have an impact on CRA's consolidated financial statements.

17. Private Placement of Convertible Debt

On June 21, 2004, CRA completed a private placement of $75 million of 2.875% convertible senior subordinated debentures due 2034. On July 1, 2004, CRA issued an additional $15 million principal amount of the debentures. The debentures are convertible into shares of common stock at an initial conversion price of $40.00 per share (equivalent to an initial conversion rate of 25 shares of common stock per $1,000 principal amount of debentures) under the following circumstances:

- during any fiscal quarter (and only during such fiscal quarter) commencing after September 3, 2004, and before February 16, 2029, if the last reported sale price of CRA's common stock is greater than or equal to 125% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

- at any time on or after February 17, 2029 if the last reported sale price of CRA's common stock on any date on or after February 17, 2029 is greater than or equal to 125% of the conversion price;

- subject to certain limitations as set forth in the indenture governing the debentures, during the five business day period after any three consecutive trading day period in which the trading price per debenture for each day of that period was less than 98% of the product of the conversion rate and the last reported sale price of CRA's common stock;

- if the debentures have been called for redemption by CRA;

- upon the occurrence of specified corporate transactions as set forth in the indenture governing the debentures; or

- if the debentures are rated by Moody's Investors Service, Inc. or Standard & Poor's Rating Services or both, at any time when (i) the long-term credit rating assigned to the debentures by either rating agency is two or more levels below the credit rating initially assigned to the debentures or (ii) either rating agency has discontinued, withdrawn or suspended their ratings with respect to the debentures.

CRA has the right to settle all or a portion of the conversion of the debentures in cash in lieu of shares of common stock, provided that in no case shall the amount in cash CRA delivers exceed $1,000 per $1,000 principal amount of debentures converted, in which case any excess shall be paid in shares of CRA's common stock.

The debentures are CRA's direct, unsecured senior subordinated obligations and rank junior in right of payment to CRA's existing bank line of credit and any future secured indebtedness that CRA may designate as senior indebtedness. Interest of 2.875% per annum is payable semi-annually on June 15 and December 15. CRA will also be required to pay contingent interest on the applicable interest payment date to the holders of the debentures for the period commencing June 20, 2011 and ending December 14, 2011 if the average trading price of the debentures for each of the last five trading days immediately preceding June 20, 2011 equals 125% or more of the principal amount of the debentures. Thereafter, CRA will pay contingent interest on the interest payment date for a six-month interest period if the average trading price of the debentures during the five trading day period immediately preceding the first day of the applicable six-month interest period equals or exceeds 125% of the principal amount of the debentures. The contingent interest payable per debenture will equal 0.25% of the average trading price of such debenture during the applicable five trading day reference period.

CRA may elect to redeem for cash all or any portion of the debentures on or after June 20, 2011 at a repurchase price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest. CRA may be required to repurchase for cash all or any portion of the debentures, at the option of each holder, on June 15, 2011, June 15, 2014, June 15, 2019, June 15, 2024 and June 15, 2029 and upon certain specified fundamental changes as set forth in the indenture governing the debentures, at a price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest. Upon a fundamental change involving a change of control of CRA, CRA may also be required to pay a make-whole premium as specified in the indenture governing the debentures, which in some cases could be substantial, which may be paid in cash, shares of common stock, or a combination thereof, to the holders of debentures who elect to require CRA to repurchase or convert debentures.

CRA incurred an aggregate of approximately $2.8 million of underwriting, legal and accounting fees during the third quarter of fiscal 2004 associated with the issuance of these debentures. These fees have been capitalized and are amortized as a component of interest expense on a straight-line basis through June 20, 2011, the date at which CRA may redeem the debentures for cash. These deferred financing costs, net of accumulated amortization of $0.1 million, are included in other assets in the consolidated balance sheet as of September 3, 2004.

CRA used $20.0 million of the net proceeds from the debenture offering to repurchase 622,200 shares of its common stock concurrently with the placement of the debentures, and $39.6 million to repay amounts outstanding under its bank line of credit. CRA intends to use the remaining net proceeds for working capital, general corporate purposes, and potentially for future acquisitions.

18. Legal Proceedings

On October 13, 2004, a client, Foster Wheeler Ltd ("FW"), filed a complaint in the United States District Court for the District of New Jersey seeking temporary restraints, an accounting, a preliminary injunction and damages. It is alleged by FW that CRA will use FW's confidential information improperly in the future in connection with its participation in the submission of a pre-qualification bid with a competitor of FW, as part of a request for qualifications for a possible project in Singapore. CRA's submission of the pre-qualification bid was one of twenty-six (26) submissions by other entities, and no current project is under way. CRA denies these allegations of wrongdoing, CRA intends to contest the complaint vigorously, and CRA believes that these claims are without merit.

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, 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, nor do we check the accuracy of this website.

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 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 where the fee is fixed or determinable, as the services are provided, and only in those situations where collection from the client is reasonably assured. The majority of our revenue is derived from time-and-materials service contracts. 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, including travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. These reimbursable expenses included in revenues are as follows (in thousands):

	Sixteen Weeks Ended		Forty Weeks Ended	
	September 5, 2004	**September 3, 2003**	**September 5, 2004**	**September 3, 2003**
Reimbursable expenses billed to clients	$ 10,554	$ 7,451	$ 21,961	$ 19,255

Our normal payment terms are 30 days from the invoice date. For the forty weeks ended September 3, 2004, and September 5, 2003, our average days sales outstanding for billed and unbilled accounts receivable were 101 days and 100 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 September 3, 2004, and November 29, 2003, $2.2 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. 141). 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, customer relationships, trade names, and property leases, which are amortized over two 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 forty weeks ended September 3, 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 $94.5 million as of September 3, 2004, which includes $69.8 million from the InteCap acquisition, which reflects our preliminary purchase price allocation and is subject to change.

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 $2.6 million as of September 3, 2004, which includes $1.7 million from the InteCap acquisition, which reflects our preliminary purchase price allocation and is subject to change.

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 these locations 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 and 2004. 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—Sixteen weeks Ended September 3, 2004, Compared to Sixteen weeks Ended September 5, 2003

Revenues. Revenues increased $24.8 million, or 50.2%, to $74.2 million for the third quarter of fiscal 2004 from $49.4 million for the third quarter of fiscal 2003. We experienced a significant increase in revenue during the third quarter of fiscal 2004 due primarily to the InteCap acquisition, which contributed approximately $17 million in revenue for the quarter. Aside from the additional revenue attributable to InteCap, we experienced strong revenue growth primarily in our finance practice area, and to a lesser extent, our energy and environment and pharmaceutical practice areas. We continue to attribute the growth in our finance practice to increased demand for our services in general securities litigation, alleged accounting malpractice litigation, and other financial-based litigation. The revenue growth in our energy and environment practice is due primarily to several large and complex bankruptcy-related cases for energy companies, including analyses of the electricity and gas markets, contracts and regulatory disputes. These increases were partially offset by decreased revenue in our materials and manufacturing and competition practice areas. Other factors affecting revenue growth were increased utilization, increased billing rates for our employee consultants, and an increase in our employee consultant headcount. The total number of employee consultants increased to 498 at the end of the third quarter of fiscal 2004, which includes 129 from the InteCap acquisition, from 348 at the end of the third quarter of fiscal 2003. Utilization was 81% for the third quarter of fiscal 2004 as compared with 72% for the third quarter of fiscal 2003. Revenues derived from fixed-price engagements decreased to 6.4% of total revenues for the third quarter of fiscal 2004 from 13.7% for the third quarter of fiscal 2003.

Costs of Services. Costs of services increased $15.5 million, or 51.7%, to $45.6 million for the third quarter of fiscal 2004 from $30.0 million for the third quarter of fiscal 2003. The increase was due primarily to an overall increase in compensation expense for our employee consultants of $12.4 million, including approximately $10 million attributable to the InteCap acquisition. Reimbursable expenses increased $3.1 million, or 41.6%, to $10.6 million from $7.5 million. As a percentage of revenues, costs of services increased to 61.4% for the third quarter of fiscal 2004 from 60.8% for the third quarter of fiscal 2003. The increase as a percentage of revenues was due primarily to an increase in compensation for our employee consultants.

Selling, General, and Administrative. Selling, general, and administrative expenses increased by $3.9 million, or 29.0%, to $17.2 million for the third quarter of fiscal 2004 from $13.3 million for the third quarter of fiscal 2003. This increase was due to several factors, including increased overall compensation to our administrative staff of $1.6 million, increased legal and other professional fees of $0.9 million, and increased travel expenses of $0.7 million, partially offset by decreased commission payments to outside experts of $0.9 million. These increases were due primarily to the InteCap acquisition. As a percentage of revenues, selling, general, and administrative expenses decreased to 23.2% for the third quarter of fiscal 2004 from 27.0% for the third quarter of fiscal 2003. The primary contributors to this decrease were relative decreases in commission payments to outside experts, as well an overall increase in revenue at a greater rate than the increases in other selling, general, and administrative expenses, including rent and other costs that are principally fixed in nature.

Interest Income. Interest income increased by $129,000 to $236,000 for the third quarter of fiscal 2004 from $107,000 for the third quarter of fiscal 2003. This increase was due primarily to higher cash and investment balances in fiscal 2004.

Interest Expense. Interest expense increased by $742,000 to $747,000 for the third quarter of fiscal 2004 from $5,000 for the third quarter of fiscal 2003. This increase was due primarily to interest expense incurred during the third quarter of fiscal 2004 on the $90 million convertible debt.

Other Expense. Other expense increased by $19,000 to $206,000 for the third quarter of fiscal 2004 from $187,000 for the third quarter of fiscal 2003. Other expense consists primarily of foreign currency exchange transaction losses.

Provision for Income Taxes. The provision for income taxes increased by $3.0 million, to $5.5 million for the third quarter of fiscal 2004 from $2.5 million for the third quarter of fiscal 2003. Our effective income tax rate increased to 51.5% for the third quarter of fiscal 2004 from 42.7% for the third quarter of fiscal 2003. The higher effective tax rate during the third quarter of fiscal 2004 is due to foreign net operating losses, primarily in the U.K., not expected to be benefited in the current fiscal year.

Minority Interest. Allocations of the minority share of NeuCo's net income result in deductions to our net income, while allocations of the minority share of NeuCo's net loss results in additions to our net income. Minority interest in the results of operations of NeuCo allocable to its other owners was a net loss of $177,000 for the third quarter of fiscal 2004 compared to net income of $11,000 for the third quarter of fiscal 2003.

Net Income. Net income increased by $2.0 million, or 58.0%, to $5.4 million for the third quarter of fiscal 2004 from $3.4 million for the third quarter of fiscal 2003. Diluted net income per share increased to $0.52 per share for the third quarter of fiscal 2004 from $0.34 per share for the third quarter of fiscal 2003. 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; and the exercise of approximately 728,000 stock options during fiscal 2003.

Results of Operations—Forty weeks Ended September 3, 2004, Compared to Forty weeks Ended September 5, 2003

Revenues. Revenues increased $34.0 million, or 27.3%, to $158.4 million for the forty weeks ended September 3, 2004, from $124.4 million for the forty weeks ended September 5, 2003. This increase was due primarily to the InteCap acquisition, which contributed approximately $19 million in revenue for the forty weeks ended September 3, 2004. Aside from the additional revenue attributable to InteCap, we experienced strong revenue growth primarily in our finance practice area, and to a lesser extent, our energy and environment, competition, and pharmaceutical practice areas. We continue to attribute the growth in our finance practice area to increased demand for our services in general securities litigation, alleged accounting malpractice litigation, and other financial-based litigation. These increases were partially offset by a decrease in revenue in our materials and manufacturing practice area. Other factors affecting revenue growth were increased utilization, increased billing rates for our employee consultants, and an increase in our employee consultant headcount. The total number of employee consultants increased to 498 at September 3, 2004, which includes 129 from the InteCap acquisition, from 348 at September 5, 2003. Utilization was 80% for the forty weeks ended September 3, 2004, as compared with 72% for the forty weeks ended September 5, 2004. Revenues derived from fixed-price engagements decreased to 7.2% of total revenues for the forty weeks ended September 3, 2004, from 19.2% for the forty weeks ended September 5, 2003.

Costs of Services. Costs of services increased by $17.1 million, or 22.2%, to $94.1 million for the forty weeks ended September 3, 2004, from $77.0 million for the forty weeks ended September 5, 2003. The increase was due primarily to an overall increase in compensation expense for our employee consultants of $14.4 million, including approximately $11 million attributable to the InteCap acquisition. Reimbursable expenses increased $2.7 million, or 14.1%, to $22.0 million from $19.3 million. As a percentage of revenues, costs of services decreased to 59.4% for the forty weeks ended September 3, 2004, from 61.9% for the forty weeks ended September 5, 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 $8.2 million, or 25.0%, to $41.2 million for the forty weeks ended September 3, 2004, from $33.0 million for the forty weeks ended September 5, 2003. This increase was due to several factors, including increased overall compensation to our administrative staff of $2.4 million, increased legal and other professional fees of $1.5 million, and increased travel expenses of $1.3 million. These increases were due primarily to the InteCap acquisition. As a percentage of revenues, selling, general, and administrative expenses decreased to 26.0% for the forty weeks ended September 3, 2004, from 26.5% for the forty weeks ended September 5, 2003. The primary contributors to this decrease were relative decreases in commission payments to outside experts, as well as an overall increase in revenue at a greater rate than the increases in other selling, general, and administrative expenses, including rent and other costs that are principally fixed in nature. These decreases were partially offset by increases in legal and other professional fees, primarily due to Sarbanes-Oxley section 404 compliance costs and travel expenses.

Interest Income. Interest income increased by $326,000 to $618,000 for the forty weeks ended September 3, 2004, from $292,000 for the forty weeks ended September 5, 2003. This increase was due primarily to higher cash and investment balances in fiscal 2004.

Interest Expense. Interest expense increased by $846,000 to $874,000 for the forty weeks ended September 3, 2004, from $28,000 for the forty weeks ended September 5, 2003. This increase was due primarily to interest expense incurred during the third quarter of fiscal 2004 on the $90 million convertible debt and borrowings of $39.6 million on our line of credit to finance the InteCap acquisition.

Other Expense. Other expense increased by $52,000 to $214,000 for the forty weeks ended September 3, 2004, from $162,000 for the forty weeks ended September 5, 2003. Other expense consists primarily of foreign currency exchange transaction losses.

Provision for Income Taxes. The provision for income taxes increased by $4.5 million, to $10.6 million for the forty weeks ended September 3, 2004, from $6.1 million for the forty weeks ended September 5, 2003. Our effective income tax rate increased to 47.0% for the first forty weeks of fiscal 2004 from 42.0% for the first forty weeks of fiscal 2003. The higher effective tax rate during the first forty weeks of 2004 is due to foreign net operating losses, primarily in the U.K., not expected to be benefited in the current fiscal year. Our effective tax rate was 43.0% in fiscal 2003.

Minority Interest. Allocations of the minority share of NeuCo's net income result in deductions to our net income, while allocations of the minority share of NeuCo's net loss result in additions to our net income. Minority interest in the results of operations of NeuCo allocable to its other owners was a net income of $20,000 for the forty weeks ended September 3, 2004, from a net income of $41,000 for the forty weeks ended September 5, 2003.

Net Income. Net income increased by $3.5 million, or 42.0%, to $12.0 million for the forty weeks ended September 3, 2004, from $8.4 million for the forty weeks ended September 5, 2003. Diluted net income per share increased to $1.13 per share for the forty weeks ended September 3, 2004, from $0.88 per share for the forty weeks ended September 5, 2003. 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 forty weeks ended September 3, 2004, we had a net decrease in cash and cash equivalents of $0.5 million. We completed the quarter with cash and cash equivalents of $60.0 million, short-term and long-term investments of $3.3 million, and working capital of $91.7 million.

On April 30, 2004, we completed the acquisition of InteCap, Inc. We purchased InteCap from InteCap's institutional investor, GTCR Golder Rauner, LLC, members of InteCap's management, and other shareholders for approximately $79.3 million (after deducting cash acquired, and adding acquisition costs and transaction fees paid or accrued). We funded the purchase price from existing cash resources and borrowings of $39.6 million under our line of credit. On June 21, 2004, we completed a private placement of $75 million of convertible senior subordinated debentures due in 2034. On July 1, 2004, we sold an additional $15 million in principal amount of these debentures. We used a portion of the net proceeds from this offering to repay the amounts outstanding under the line of credit.

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

Sources of Cash in the forty weeks ended September 3, 2004. During the first forty weeks of fiscal 2004, we generated cash, primarily from the following sources: $90.0 million in proceeds from the private placement of convertible debt, $13.4 million in cash provided by our operating activities, and $2.6 million in proceeds from the exercise of stock options. During this period, we also borrowed $39.6 million under our line of credit and subsequently repaid this amount with the proceeds of the convertible debt offering. Cash provided by operating activities resulted primarily from net income of $12.0 million, which reflected depreciation and amortization expense of $3.6 million, and an increase in accounts payable, accrued expenses and other liabilities of $2.7 million, partially offset by an increase in accounts receivable of $5.3 million.

Private Placement of Convertible Debt. On June 21, 2004, we completed a private placement of $75 million of 2.875% convertible senior subordinated debentures due 2034. On July 1, 2004, we sold an additional $15 million in principal amount of the debentures. The debentures are convertible into shares of common stock at an initial conversion price of $40.00 per share (equivalent to an initial conversion rate of 25 shares of common stock per $1,000 principal amount of debentures) under the following circumstances:

- during any fiscal quarter (and only during such fiscal quarter) commencing after September 3, 2004, and before February 16, 2029, if the last reported sale price of our common stock is greater than or equal to 125% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

- at any time on or after February 17, 2029 if the last reported sale price of our common stock on any date on or after February 17, 2029 is greater than or equal to 125% of the conversion price;

- subject to certain limitations as set forth in the indenture governing the debentures, during the five business day period after any three consecutive trading day period in which the trading price per debenture for each day of that period was less than 98% of the product of the conversion rate and the last reported sale price of our common stock;

- if the debentures have been called for redemption by us;

- upon the occurrence of specified corporate transactions as set forth in the indenture governing the debentures; or

- if the debentures are rated by Moody's Investors Service, Inc. or Standard & Poor's Rating Services or both, at any time when (i) the long-term credit rating assigned to the debentures by either rating agency is two or more levels below the credit rating initially assigned to the debentures or (ii) either rating agency has discontinued, withdrawn or suspended their ratings with respect to the debentures.

We have the right to settle all or a portion of the conversion of the debentures in cash in lieu of shares of common stock, provided that in no case shall the amount in cash we deliver exceed $1,000 per $1,000 principal amount of debentures converted, in which case any excess shall be paid in shares of our common stock. If we elect to settle the par value of the debentures in cash, we will use available cash and investment balances, cash from operations, amounts available under our bank line of credit, and alternative means of financing to meet this obligation.

The debentures are our direct, unsecured senior subordinated obligations and rank junior in right of payment to our existing bank line of credit and any future secured indebtedness that we may designate as senior indebtedness. Interest of approximately $1.3 million, is payable semi-annually on June 15 and December 15. We will also be required to pay contingent interest on the applicable interest payment date to the holders of the debentures for the period commencing June 20, 2011 and ending December 14, 2011 if the average trading price of the debentures for each of the last five trading days immediately preceding June 20, 2011 equals 125% or more of the principal amount of the debentures. Thereafter, we will pay contingent interest on the interest payment date for a six-month interest period if the average trading price of the debentures during the five trading day period immediately preceding the first day of the applicable six-month interest period equals or exceeds 125% of the principal amount of the debentures. The contingent interest payable per debenture will equal 0.25% of the average trading price of such debenture during the applicable five trading day reference period.

We may elect to redeem all or any portion of the debentures on or after June 20, 2011 at a repurchase price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest. We may be required to repurchase all or any portion of the debentures, at the option of each holder, on June 15, 2011, June 15, 2014, June 15, 2019, June 15, 2024 and June 15, 2029 and upon certain specified fundamental changes, at a price equal to 100% of the principal amount of the debentures, plus accrued and unpaid interest. Upon a fundamental change involving a change of control of CRA, we may also be required to pay a make-whole premium which in some cases could be substantial, which may be paid in cash, shares of common stock, or a combination thereof, to the holders of debentures who elect to require us to repurchase or convert debentures.

We used approximately $20.0 million of the net proceeds from this offering to repurchase 622,200 shares of our common stock concurrently with the placement of the debentures, $39.6 million to repay amounts outstanding under our bank line of credit, and $2.8 million to pay offering expenses. We intend to use the remaining net proceeds for working capital, general corporate purposes, and potentially for future acquisitions.

Borrowings under the Revolving Line of Credit. 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. Any borrowings under the line of credit must be repaid no later than January 14, 2006. In April 2004, we borrowed $39.6 million under our line of credit to finance the acquisition of InteCap. This amount was repaid in June 2004. There were no amounts outstanding under this line of credit as of September 3, 2004.

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. For the borrowing period under the line of credit for the third quarter of fiscal 2004, the average annual interest rate was 2.1%. Interest is payable monthly. 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 $21 million as of September 3, 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 financing. Our ability to secure short-term and long-term debt or equity financing in the future will depend on several factors, including our future profitability, the levels of our debt and equity, restrictions under our existing line of credit with Citizens Bank of Massachusetts, and the overall credit and equity market environments.

In connection with our acquisition of the consulting business of Dr. Rausser in fiscal 2000, 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 the loan obligation by selling us 73,531 shares of our common stock and paying 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.

In connection with our acquisition of InteCap, certain InteCap employees purchased an aggregate of 87,316 shares of common stock in exchange for full recourse, interest-bearing notes, maturing in June, 2007, totaling approximately $2.9 million.

Uses of Cash in the forty weeks ended September 3, 2004. During the first forty weeks of fiscal 2004, we used cash primarily for the following activities: $79.1 million (after deducting cash acquired, and adding acquisition costs and transaction fees paid) to acquire InteCap, $20.0 million to repurchase 622,200 shares of our common stock concurrently with the placement of the debentures, and $6.2 million for capital expenditures.

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, 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. The non-financial covenants of the senior credit agreement prohibit us from paying dividends and places restrictions on our ability to incur additional indebtedness, repurchase our securities, engage in acquisitions or 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. We obtained permission under our senior credit agreement to repurchase $20 million of our common stock during the third quarter of fiscal 2004.

As of September 3, 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, including our recent acquisition of InteCap, our largest acquisition to date. 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.

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 September 3, 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.

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 our recent 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 the InteCap acquisition or any other 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 ongoing military conflicts in the region have significantly interrupted our business operations in that region and have slowed the flow of new opportunities and proposals, which ultimately have 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 debt obligations may adversely impact our financial performance

In June and July of 2004, we issued a total of $90.0 million of 2.875% convertible senior subordinated debentures due 2034. We have previously operated with little or no debt, and our previous payments of interest have not been material. The interest we will be required to pay on these debentures will reduce our net income each year until the debentures are no longer outstanding. The terms of the debentures also include provisions that could accelerate our obligation to repay all amounts outstanding under the debentures if certain events happen, such as our failure to pay interest in a timely manner, failure to pay principal upon redemption or repurchase, failure to deliver shares of common stock, cash or other property upon conversion and other specified events of default. In addition, on June 15, 2011, June 15, 2014, June 15, 2019, June 15, 2024 and June 15, 2029, or following specified fundamental changes holders of debentures may require us to repurchase their debentures for cash. If any of these events were to happen, we do not presently have the financial resources to satisfy these obligations if they became due, and we would have to seek to refinance these obligations. The degree to which we are leveraged could adversely affect our ability to obtain further financing for working capital, acquisitions or other purposes and could make us more vulnerable to industry downturns and competitive pressures. The terms of any such refinancing could be significantly less favorable to us and could have a material adverse effect on our results of operations.

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. Our recent acquisition of InteCap has significantly expanded our client base, which may increase the frequency with which we encounter conflicts of interest. 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.

Our reported earnings per share may be more volatile because of the contingent conversion provision of our convertible senior subordinated debentures

Holders of our 2.875% convertible senior subordinated debentures due 2034 may convert the debentures into our common stock (or, at our election, cash or a combination of cash and common stock), only under the following circumstances:

- during any fiscal quarter (and only during such fiscal quarter) commencing after September 3, 2004, and before February 16, 2029, if the last reported sale price of our common stock is greater than or equal to 125% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter;

- at any time on or after February 17, 2029 if the last reported sale price of our common stock on any date on or after February 17, 2029 is greater than or equal to 125% of the conversion price;

- subject to certain limitations as set forth in the indenture governing the debentures, during the five business day period after any three consecutive trading day period in which the trading price per debenture for each day of that period was less than 98% of the product of the conversion rate and the last reported sale price of our common stock;

- if the debentures have been called for redemption by us;

- upon the occurrence of specified corporate transactions as set forth in the indenture governing the debentures; or

- if the debentures are rated by Moody's Investors Service, Inc. or Standard & Poor's Rating Services or both, at any time when (i) the long-term credit rating assigned to the debentures by either rating agency is two or more levels below the credit rating initially assigned to the debentures or (ii) either rating agency has discontinued, withdrawn or suspended their ratings with respect to the debentures.

Until a contingent conversion condition is met, the shares underlying the debentures are not included in the calculation of diluted earnings per share. Should any stock price-related conversion contingency be met, diluted earnings per share would be expected to decrease as a result of the inclusion of the underlying shares in the earnings per share calculation. Accordingly, an increase in volatility in our stock price could cause this condition to be met in one quarter and not in a subsequent quarter, increasing the volatility of reported diluted earnings per share.

Changes in accounting standards, rules and regulations as they relate to the accounting treatment of our debentures may adversely affect our operating results

Changes in current accounting standards, rules and regulations as they relate to our accounting treatment of our debentures may adversely affect our reported diluted earnings per share. In September, 2004, the Emerging Issues Task Force of the FASB reached a conclusion that contingently convertible securities should be included in diluted earnings per share computations, regardless of whether a stock price-related conversion contingency has been met. Under a proposed amendment to SFAS No. 128, in order to remain under the treasury stock method of accounting, we would need to commit, contractually and irrevocably, to settle the par value of the debentures in cash. If we do not commit, contractually and irrevocably, to settle the par value of the debentures in cash, then our diluted earnings per share would be expected to decrease significantly as a result of the inclusion of the underlying shares in the earnings per share calculation. The proposed effective date of EITF 04-8 and the proposed amendment to SFAS No. 128 is expected to be for periods ending after December 15, 2004.

We may not be able to deduct interest on our convertible senior subordinated debentures

Due to the potential application of certain U.S. federal income tax laws, we may be unable to deduct all or a portion of the paid or accrued interest with respect to our convertible senior subordinated debentures in any given year in which the debentures remain outstanding. The extent, if any, to which these restrictions would apply will not be fully determinable until the end of our current taxable year or possibly subsequent taxable years and are based on a number of factors, some of which are not within our control. While we currently believe that none of these restrictions will apply to reduce the full amount of our deductions, we cannot assure you that this will be the case. If we were unable to deduct all or any portion of the paid or accrued interest with respect to the debentures, our effective tax rate would increase and our cash flow and after-tax operating results could be adversely affected.

The price of our common stock may be volatile

Our stock price has been volatile. Over the period from September 5, 2003 to September 3, 2004, the trading price of our common stock ranged from $26.20 to $37.99. 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 September 3, 2004, we were exposed to market risks, which include primarily 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 our 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 third 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

On October 13, 2004, a client, Foster Wheeler Ltd. ("FW"), filed a complaint in the United States District Court for the District of New Jersey seeking temporary restraints, an accounting, a preliminary injunction, and damages. It is alleged by FW that we will use FW's confidential information improperly in the future in connection with our participation in the submission of a pre-qualification bid with a competitor of FW, as part of a request for qualifications for a possible project in Singapore. Our submission of the pre-qualification bid was one of twenty-six (26) submissions by other entities, and no current project is underway. We deny these allegations of wrongdoing, we intend to contest the complaint vigorously, and we believe that these claims are without merit.

ITEM 2. Changes in Securities and Use of Proceeds

(a) On June 21, 2004, and July 1, 2004, we sold $75 million and $15 million, respectively, in aggregate principal amounts of 2.875% convertible senior subordinated debentures due 2034 to J.P. Morgan Securities Inc., Piper Jaffray & Co., and William Blair & Company L.L.C., as the initial purchasers, at a purchase price equal to 97% of the principal amount of the debentures, representing aggregate underwriting discounts and commissions of $2.7 million. The debentures were resold by the initial purchasers to persons they reasonably believed to be qualified institutional buyers, as defined in Rule 144A under the Securities Act of 1933, as amended, at a purchase price equal to 99.25% of the principal amount of the debentures, plus accrued interest, if any, from June 21, 2004. We relied on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, for transactions by an issuer not involving any public offering. The terms of conversion of the debentures are incorporated by reference to the description of such terms included under the heading "Description of Debentures" in the final form of prospectus included in our Registration Statement on Form S-3 (File No. 333-118691).

(c) The following table provides information about our repurchases of shares of our common stock during the sixteen weeks ended September 3, 2004. During that period, we did not act in concert with any affiliate or any other person to acquire any of our common stock and, accordingly, we do not believe that purchases by any such affiliate or other person (if any) are reportable in the following table. For purposes of this table, we have divided the quarter into four equal periods of four weeks.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
May 15, 2004, to June 11, 2004	—	—	—	—
June 12, 2004, to July 9, 2004	622,200(2)	$ 32.14	622,200	—
July 10, 2004, to August 6, 2004	—	—	—	—
August 7, 2004, to September 3, 2004.	—	—	—	—

(1) We are a party to a stock restriction agreement with certain stockholders under which we have specified rights to repurchase shares of common stock held by them, as described in more detail in our proxy statement for our 2004 annual meeting of stockholders under the heading "Transactions with Related Parties—Stock restriction agreement."

(2) On June 15, 2004, we issued a press release announcing that we intended to use a portion of the net proceeds from a proposed offering of convertible subordinated debentures to repurchase up to $20 million of our common stock concurrently with the offering of the debentures. Our announcement did not otherwise specify any expiration date for this plan. We completed the repurchase of $20 million of our common stock on June 23, 2004. Accordingly, this repurchase plan has been completed.

ITEM 6. Exhibits

Item No.	Description
4.1(1)	Indenture governing the 2.875% Convertible Senior Subordinated Debentures, dated June 21, 2004, among CRA as Issuer and U.S. Bank National Association as Trustee, including the form of debenture attached as Exhibit A thereto.
10.1	Charles River Associates Incorporated 2004 Nonqualified Inducement Stock Option Plan
10.2(2)	Resale Registration Rights Agreement dated June 21, 2004, between CRA and J.P. Morgan Securities, Inc.
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

Where a numbered note follows an exhibit number, we incorporate that exhibit by reference to the similarly named document filed as an exhibit to the following documents:

(1) Our quarterly report on Form 10-Q/A, filed on July 14, 2004 (File No. 000-24049), for the quarterly period ended May 14, 2004.

(2) Our registration statement on Form S-3 (File No. 333-118691) filed on August 31, 2004.

SIGNATURES

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

CHARLES RIVER ASSOCIATES INCORPORATED

Date: October 15, 2004	By:	/s/ JAMES C. BURROWS
		James C. Burrows *President, Chief Executive Officer*
Date: October 15, 2004	By:	/s/ J. PHILLIP COOPER
		J. Phillip Cooper *Executive Vice President,* *Chief Financial Officer* *(Principal Financial and Accounting Officer)*

EXHIBIT INDEX

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QuickLinks

Exhibit 10.1

AS APPROVED BY THE BOARD OF
DIRECTORS ON MAY 12, 2004

CHARLES RIVER ASSOCIATES INCORPORATED

2004 NONQUALIFIED INDUCEMENT STOCK OPTION PLAN

SECTION 1. PURPOSE

The purpose of this 2004 Nonqualified Inducement Stock Option Plan (the "Plan") is to promote the interests of Charles River Associates Incorporated (the "Company"), by affording certain persons the opportunity to acquire a proprietary interest in the Company. The Company intends that the Plan be reserved for persons to whom the Company may issue securities without stockholder approval as an inducement pursuant to Rule 4350(i)(1)(A)(iv) of the Marketplace Rules of the Nasdaq Stock Market, Inc. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company and its shareholders, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company. The Company intends that this purpose will be effected by the granting of non-statutory stock options ("Inducement Options") under the Plan. In addition, this Plan provides the Plan Administrator the sole authority to establish the terms and conditions for the exercise of any Inducement Option, including, but not limited to, non-competition, non-solicitation and non-hire provisions. As used in the Plan the terms "parent" and "subsidiary" shall have the respective meanings set forth in Section 424 of the Internal Revenue Code of 1986, as amended (the "Code").

SECTION 2. ADMINISTRATION

2.1 THE PLAN ADMINISTRATOR. The Plan shall be administered by the Plan Administrator (the "Plan Administrator"), which shall be the Compensation Committee of the Board of Directors of the Company (the "Board") unless otherwise determined by the Board, in which case the Plan Administrator shall be the entire Board unless the Board shall appoint another committee to be the Plan Administrator. It is the intention of the Company that the Plan, if not administered by the Board, shall be administered by a committee of the Board composed solely of two or more "Non-Employee Directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "1934 Act"), but the authority and validity of any act taken or not taken by the Plan Administrator shall not be affected if any person administering the Plan is not a Non-Employee Director. Except as specifically reserved to the Board under the terms of the Plan, the Plan Administrator shall have full and final authority to operate, manage and administer the Plan on behalf of the Company. Action by the Plan Administrator shall require the affirmative vote of a majority of all members thereof.

2.2 POWERS OF THE PLAN ADMINISTRATOR. Subject to the terms and conditions of the Plan, the Plan Administrator shall have the power:

(a) To determine from time to time the persons eligible to receive options and the options to be granted to such persons under the Plan and to prescribe the terms, conditions, restrictions, if any, and provisions (which need not be identical) of each option granted under the Plan to such persons;

(b) To construe and interpret the Plan and options granted thereunder and to establish, amend, and revoke rules and regulations for administration of the Plan. In this connection, the Plan Administrator may correct any defect or supply any omission, or reconcile any inconsistency in the Plan, or in any option agreement, in the manner and to the extent it shall deem necessary or expedient to make the Plan fully effective. All decisions and determinations by the Plan Administrator in the exercise of this power shall be final and binding upon the Company and optionees;

(c) To make, in its sole discretion, changes to any outstanding option granted under the Plan, including: (i) to reduce the exercise price, (ii) to accelerate the vesting schedule or (iii) to extend the expiration date; and

(d) Generally, to exercise such powers and to perform such acts as are deemed necessary or expedient to promote the best interests of the Company with respect to the Plan.

SECTION 3. STOCK

3.1 STOCK TO BE ISSUED. The stock subject to the options granted under the Plan shall be shares of the Company's authorized but unissued common stock, without par value (the "Common Stock"), or shares of the Company's Common Stock held in treasury. The total number of shares that may be issued pursuant to options granted under the Plan shall not exceed an aggregate of 500,000 shares of Common Stock; PROVIDED, HOWEVER, that the class and aggregate number of shares which may be subject to options granted under the Plan shall be subject to adjustment as provided in Section 8 hereof.

3.2 EXPIRATION, CANCELLATION OR TERMINATION OF OPTION. Whenever any outstanding option under the Plan expires, is cancelled or is otherwise terminated (other than by exercise), the shares of Common Stock allocable to the unexercised portion of such option may again be the subject of options under the Plan.

SECTION 4. ELIGIBILITY

Inducement Options under the Plan may be granted only to persons to whom the Company may issue securities without stockholder approval in accordance with Rule 4350(i)(1)(A)(iv) of the Marketplace Rules of the Nasdaq Stock Market, Inc.

SECTION 5. TERMINATION OF EMPLOYMENT OR DEATH OF OPTIONEE

5.1 TERMINATION OF EMPLOYMENT. Except as may be otherwise expressly provided herein, options shall terminate on the earliest of:

(a) the date of expiration thereof;

(b) immediately upon the termination of the optionee's employment with or performance of services for the Company (or any parent or subsidiary of the Company) by the Company (or any such parent or subsidiary) for cause (as determined by the Company or such parent or subsidiary); or

(c) in the case of termination without cause or voluntary termination by the optionee, thirty (30) days after the termination of the optionee's employment with or performance of services for the Company (or any parent or subsidiary of the Company) for any reason other than death or retirement;

PROVIDED, HOWEVER, that options granted to persons who are not employees of the Company (or any parent or subsidiary of the Company) need not, unless the Plan Administrator determines otherwise, be subject to the provisions set forth in clauses (b) and/or (c).

An employment relationship between the Company (or any parent or subsidiary of the Company) and the optionee shall be deemed to exist during any period in which the optionee is employed by the Company (or any such parent or subsidiary). Whether authorized leave of absence, or absence on military or government service, shall constitute termination of the employment relationship between the Company (or any parent or subsidiary of the Company) and the optionee shall be determined by the Plan Administrator at the time thereof.

As used herein, "cause" shall mean (w) any material breach by the optionee of any agreement to which the optionee and the Company (or any parent or subsidiary of the Company) are both parties; (x) any act or omission to act by the optionee which may have a material and adverse effect on the business of the Company (or any such parent or subsidiary) or on the optionee's ability to perform services for the Company (or any such parent or subsidiary), including, without limitation, the commission of any crime (other than ordinary traffic violations); (y) any material misconduct or material neglect of duties by the optionee in connection with the business or affairs of the Company (or any such parent or subsidiary) or any affiliate of the Company (or any such parent or subsidiary); or (z) "cause" as may otherwise be defined in any other agreements between the optionee and the Company (or any such parent or subsidiary).

5.2 DEATH OR RETIREMENT OF OPTIONEE. In the event of the death of the holder of an option that is subject to clause (c) of Section 5.1 above prior to termination of the optionee's employment with or performance of services for the Company (or any parent or subsidiary of the Company) and before the date of expiration of such option, such

option shall terminate on the earlier of such date of expiration or one year following the date of such death. After the death of the optionee, his executors, administrators or any person or persons to whom his option may be transferred by will or by the laws of descent and distribution shall have the right, at any time prior to such termination, to exercise the option to the extent the optionee was entitled to exercise such option at the time of his death.

If, before the date of the expiration of an option that is subject to clause (c) of Section 5.1 above, the optionee shall be retired in good standing from the Company for reasons of age or disability under the then established rules of the Company, the option shall terminate on the earlier of such date of expiration or ninety (90) days after the date of such retirement. In the event of such retirement, the optionee shall have the right prior to the termination of such option to exercise the option to the extent to which he was entitled to exercise such option immediately prior to such retirement.

SECTION 6. TERMS OF THE OPTION AGREEMENTS

Each option agreement shall be in writing and shall contain such terms, conditions, restrictions, if any, and provisions as the Plan Administrator shall from time to time deem appropriate. Such provisions or conditions may include, without limitation, restrictions on transfer, repurchase rights, or such other provisions as shall be determined by the Plan Administrator; PROVIDED, HOWEVER, that such additional provisions shall not be inconsistent with any other terms or conditions of the Plan.

Option agreements need not be identical, but each option agreement by appropriate language shall include the substance of all of the following provisions:

6.1 EXPIRATION OF OPTION. Notwithstanding any other provision of the Plan or of any option agreement, each option shall expire on the date specified in the option agreement, which date shall not be later than as specified in Section 5 of this Plan.

6.2 EXERCISE. Each option may be exercised, so long as it is valid and outstanding, from time to time in part or as a whole, subject to any limitations with respect to the number of shares for which the option may be exercised at a particular time and to such other terms and conditions as the Plan Administrator in its sole discretion may specify upon granting the option, including non-competition, non-solicitation and non-hire provisions.

6.3 PURCHASE PRICE. The purchase price per share under each option shall be determined by the Plan Administrator at the time the option is granted.

6.4 TRANSFERABILITY OF OPTIONS. Inducement Options shall not be transferable by the optionee otherwise than by will or under the laws of descent and distribution, and shall be exercisable, during his lifetime, only by the optionee. Notwithstanding the foregoing, the Plan Administrator may, in its sole discretion, permit the transfer or assignment of an Inducement Option by the original optionee for no consideration to: (i)

any member of the optionee's Immediate Family; (ii) any trust solely for the benefit of members of the optionee's Immediate Family; (iii) any partnership whose only partners are members of the optionee's Immediate Family; or (iv) any limited liability company or corporate entity whose only members or other equity owners are members of the optionee's Immediate Family. For purposes of this Section 6.4, "Immediate Family" means an optionee's parents, spouse, children and grandchildren. Nothing contained in this Section 6.4 shall be construed to require the Plan Administrator to give its approval to any transfer or assignment of any Inducement Option or portion thereof, and approval to transfer or assign any Inducement Option or portion thereof does not mean that such approval will be given with respect to any other Inducement Option or portion thereof. The transferee or assignee of any Inducement Option shall be subject to all of the terms and conditions applicable to such Inducement Option immediately prior to the transfer or assignment and shall be subject to any conditions prescribed by the Plan Administrator with respect to such Inducement Option. In particular, and without limiting the generality of the foregoing, the termination of employment, retirement or death of the original optionee shall continue to determine the term and time for exercise of such Inducement Option for purposes of Sections 5.1 and 5.2 above.

6.5 RIGHTS OF OPTIONEES. No optionee shall be deemed for any purpose to be the owner of any shares of Common Stock subject to any option unless and until the option shall have been exercised pursuant to the terms thereof, and the Company shall have issued and delivered certificates representing such shares to the optionee.

6.6 CERTAIN RIGHTS OF THE COMPANY. The Plan Administrator may in its discretion provide upon the grant of any option hereunder that the Company shall have an option to repurchase upon such terms and conditions as determined by the Plan Administrator all or any number of shares purchased upon exercise of such option or a right of first refusal in connection with subsequent transfer of any or all of such shares. The repurchase price per share payable by the Company shall be such amount or be determined by such formula as is fixed by the Plan Administrator at the time the option for the shares subject to repurchase is granted. In the event the Plan Administrator shall grant options subject to the Company's repurchase option or right of first refusal, the certificates representing the shares purchased pursuant to such option shall carry a legend satisfactory to counsel for the Company referring to the Company's repurchase option or right of first refusal.

6.7 "LOCKUP" AGREEMENT. The Plan Administrator may in its discretion specify upon granting an option that upon request of the Company or the underwriters managing any underwritten offering of the Company's securities, the optionee shall agree in writing that for a period of time (not to exceed 180 days) from the effective date of any registration of securities of the Company, the optionee will not sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares issued pursuant to the exercise of such option, without the prior written consent of the Company or such underwriters, as the case may be.

SECTION 7. METHOD OF EXERCISE; PAYMENT OF PURCHASE PRICE

7.1 METHOD OF EXERCISE. Any option granted under the Plan may be exercised by the optionee by delivering to the Company on any business day a written notice specifying the number of shares of Common Stock the optionee then desires to purchase and specifying the address to which the certificates for such shares are to be mailed (the "Notice"), accompanied by payment for such shares. Such exercise shall comply with all other terms and provisions of such option.

7.2 PAYMENT OF PURCHASE PRICE. Payment for the shares of Common Stock purchased pursuant to the exercise of an option shall be made either by cash or check equal to the option price for the number of shares specified in the Notice or, with the consent of the Plan Administrator, by one or more of the following methods: (i) by delivery to the Company of shares of Common Stock that either have been purchased by the optionee on the open market, or have been beneficially owned by the optionee for a period of at least six months and are not then subject to restriction under any Company plan ("mature shares"); such surrendered shares shall have a fair market value equal in amount to the exercise price of the Inducement Options being exercised; (ii) a personal recourse note issued by the optionee to the Company in a principal amount equal to such aggregate exercise price and with such other terms, including interest rate and maturity, as the Plan Administrator may determine in its discretion; PROVIDED, HOWEVER, that the interest rate borne by such note shall not be less than the lowest applicable federal rate, as defined in Section 1274(d) of the Code; (iii) by delivery of such documentation as the Plan Administrator and the broker, if applicable, shall require to effect an exercise of the option and delivery to the Company of the sale or loan proceeds required to pay the option price, (iv) by delivery of such other consideration which is acceptable to the Plan Administrator and which has a fair market value equal to the option price of such shares, or (v) by any combination of such methods. For the purpose of the Plan the "fair market value" of the Common Stock shall be the closing price per share on the date of grant of the option as reported by a nationally recognized stock exchange, or, if the Common Stock is not listed on such an exchange, as reported by the Nasdaq Stock Market, Inc. or, if the Common Stock is not reported by the Nasdaq Stock Market, Inc., the mean of the bid and asked prices per share on the date of grant of the option or, if the Common Stock is not traded over-the-counter, the fair market value as determined by the Plan Administrator. As promptly as practicable after receipt of the Notice and accompanying payment, the Company shall deliver to the optionee certificates for the number of shares with respect to which such option has been so exercised, issued in the optionee's name; PROVIDED, HOWEVER, that such delivery shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have deposited such certificates in the United States mail, addressed to the optionee, at the address specified in the Notice.

SECTION 8. CHANGES IN COMPANY'S CAPITAL STRUCTURE

8.1 RIGHTS OF COMPANY. The existence of outstanding options shall not affect in any way the right or power of the Company or its stockholders to make or authorize, without limitation, any or all adjustments, recapitalizations, reorganizations or other

changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issue of Common Stock, or any issue of bonds, debentures, preferred or prior preference stock or other capital stock ahead of or affecting the Common Stock or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

8.2 RECAPITALIZATIONS, STOCK SPLITS AND DIVIDENDS. If the Company shall effect a subdivision or consolidation of shares or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of the Common Stock outstanding, in any such case without receiving compensation therefor in money, services or property, then (i) the number, class, and price per share of shares of stock subject to outstanding options hereunder shall be appropriately adjusted in such a manner as to entitle an optionee to receive upon exercise of an option, for the same aggregate cash consideration, the same total number and class of shares as he would have received as a result of the event requiring the adjustment had he exercised his option in full immediately prior to such event; and (ii) the number and class of shares set forth in Section 3.1 shall be adjusted by substituting therefor that number and class of shares of stock that the owner of an equal number of outstanding shares of Common Stock immediately prior to the event requiring adjustment would own as the result of such event.

8.3 MERGER WITHOUT CHANGE OF CONTROL. After a merger of one or more corporations or other entities with or into the Company or after a consolidation of the Company and one or more corporations or other entities in which the stockholders of the Company immediately prior to such merger or consolidation own after such merger or consolidation securities representing at least fifty percent (50%) of the voting power of the Company or the surviving or resulting corporation or entity, as the case may be, each holder of an outstanding option shall, at no additional cost, be entitled upon exercise of such option to receive in lieu of the shares of Common Stock as to which such option was exercisable immediately prior to such event, the number and class of shares of stock or other securities, cash or property (including, without limitation, shares of stock or other securities of another corporation or entity or Common Stock) to which such holder would have been entitled pursuant to the terms of the agreement of merger or consolidation if, immediately prior to such merger or consolidation, such holder had been the holder of record of a number of shares of Common Stock equal to the number of shares for which such option shall be so exercised.

8.4 CHANGE OF CONTROL. If the Company is merged with or into or consolidated with another corporation or other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or if the Company is liquidated, or sells or otherwise disposes of substantially all of its assets to another entity while unexercised options remain outstanding under the Plan, then in such event either:

(a) subject to the provisions of clause (c) below, after the effective date of such merger, consolidation, liquidation, sale or disposition, as the case may be, each holder of an outstanding option shall be entitled, upon exercise of such option, to receive, in lieu of the shares of Common Stock as to which such option was exercisable immediately prior to such event, the number and class of shares of stock or other securities, cash or property (including, without limitation, shares of stock or other securities of another corporation or entity or Common Stock) to which such holder would have been entitled pursuant to the terms of the merger, consolidation, liquidation, sale or disposition if, immediately prior to such event, such holder had been the holder of a number of shares of Common Stock equal to the number of shares as to which such option shall be so exercised;

(b) the Plan Administrator may accelerate the time for exercise of some or all unexercised and unexpired options so that from and after a date prior to the effective date of such merger, consolidation, liquidation, sale or disposition, as the case may be, specified by the Plan Administrator such accelerated options shall be exercisable in full; or

(c) all outstanding options may be canceled by the Plan Administrator as of the effective date of any such merger, consolidation, liquidation, sale or disposition provided that (x) notice of such cancellation shall be given to each holder of an option and (y) each holder of an option shall have the right to exercise such option to the extent that the same is then exercisable or, if the Plan Administrator shall have accelerated the time for exercise of all unexercised and unexpired options, in full during the 10-day period preceding the effective date of such merger, consolidation, liquidation, sale or disposition.

8.5 ADJUSTMENTS TO COMMON STOCK SUBJECT TO OPTIONS. Except as hereinbefore expressly provided, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock then subject to outstanding options.

8.6 MISCELLANEOUS. Adjustments under this Section 8 shall be determined by the Plan Administrator, and such determinations shall be conclusive. No fractional shares of Common Stock shall be issued under the Plan on account of any adjustment specified above.

SECTION 9. GENERAL RESTRICTIONS

9.1 INVESTMENT REPRESENTATIONS. The Company may require any person to whom an option is granted, as a condition of exercising such option, to give written assurances in substance and form satisfactory to the Company to the effect that such person is acquiring the Common Stock subject to the option for his own account for investment and not with any present intention of selling or otherwise distributing the same, and to such other effects as the Company deems necessary or appropriate in order to comply with federal and applicable state securities laws.

9.2 COMPLIANCE WITH SECURITIES LAWS. The Company shall not be required to sell or issue any shares under any option if the issuance of such shares shall constitute a violation by the optionee or by the Company of any provision of any law or regulation of any governmental authority. In addition, in connection with the Securities Act of 1933, as now in effect or hereafter amended (the "Act"), upon exercise of any option, the Company shall not be required to issue such shares unless the Plan Administrator has received evidence satisfactory to it to the effect that the holder of such option will not transfer such shares except pursuant to a registration statement in effect under such Act or unless an opinion of counsel satisfactory to the Company has been received by the Company to the effect that such registration is not required. Any determination in this connection by the Plan Administrator shall be final, binding and conclusive. In the event the shares issuable on exercise of an option are not registered under the Act, the Company may imprint upon any certificate representing shares so issued the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Act and with applicable state securities laws:

> The shares of stock represented by this certificate have not been registered under the Securities Act of 1933 or under the securities laws of any State and may not be pledged, hypothecated, sold or otherwise transferred except upon such registration or upon receipt by the Corporation of an opinion of counsel satisfactory to the Corporation, in form and substance satisfactory to the Corporation, that registration is not required for such sale or transfer.

The Company may, but shall in no event be obligated to, register any securities covered hereby pursuant to the Act; and in the event any shares are so registered the Company may remove any legend on certificates representing such shares. The Company shall not be obligated to take any other affirmative action in order to cause the exercise of an option or the issuance of shares pursuant thereto to comply with any law or regulation of any governmental authority.

9.3 EMPLOYMENT OBLIGATION. The granting of any option shall not impose upon the Company (or any parent or subsidiary of the Company) any obligation to employ or continue to employ any optionee; and the right of the Company (or any such parent or subsidiary) to terminate the employment of any officer or other employee shall not be diminished or affected by reason of the fact that an option has been granted to him or her.

9.4 WITHHOLDING TAX. Whenever under the Plan securities or other property are to be delivered upon exercise of an option, the Company shall be entitled to require as a condition of delivery that the optionee remit an amount sufficient to satisfy all federal, state and other governmental withholding tax requirements related thereto, or make arrangements satisfactory to the Plan Administrator regarding payment of such withholding taxes. The Company shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the optionee. An optionee may elect, with the consent of the Plan Administrator, to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Common Stock to be issued pursuant to the exercise of such option a number of shares with an aggregate fair market value (as of the date the withholding is effected) that would satisfy the minimum withholding amount due, or (ii) delivering to the Company a number of mature shares of Common Stock with an aggregate fair market value (as of the date the withholding is effected) that would satisfy the minimum withholding amount due.

SECTION 10. AMENDMENT OR TERMINATION OF THE PLAN

The Board of Directors may modify, revise or terminate this Plan at any time and from time to time.

SECTION 11. NONEXCLUSIVITY OF THE PLAN

The adoption of the Plan by the Board of Directors shall not be construed as creating any limitations on the power of the Board of Directors to adopt such other inducement or other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

SECTION 12. EFFECTIVE DATE AND DURATION OF PLAN

The Plan shall become effective upon its adoption by the Board of Directors. No option may be granted under the Plan after the tenth anniversary of the effective date. The Plan shall terminate (i) when the total amount of Common Stock with respect to which options may be granted shall have been issued upon the exercise of options or (ii) by action of the Board of Directors pursuant to Section 10 hereof, whichever shall first occur.

* * *

Exhibit 31.1

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) [omitted]

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect adversely the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2004	By:	/s/ JAMES C. BURROWS
		James C. Burrows President, Chief Executive Officer

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Exhibit 31.2

CERTIFICATION

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 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) [omitted]

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to affect adversely the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2004	By:	/s/ J. PHILLIP COOPER
		J. Phillip Cooper Executive Vice President and Chief Financial Officer

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Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Charles River Associates Incorporated (the "Company") for the quarter ended September 3, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned President and Chief Executive Officer and Executive Vice President and Chief Financial Officer of the Company, certifies, to the best knowledge and belief of the signatory, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES C. BURROWS	/s/ J. PHILLIP COOPER
James C. Burrows President and Chief Executive Officer	J. Phillip Cooper Executive Vice President and Chief Financial Officer
Date: October 15, 2004	Date: October 15, 2004

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Exhibit 32.1