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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **August 30, 2002**

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or

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

Commission file number: **000-24049**

Charles River Associates Incorporated

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

617-425-3000

Registrant’s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

As of October 9, 2002 CRA had outstanding 9,009,805 shares of common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	Sixteen Weeks Ended		*Forty Weeks Ended*	
	August 31, 2001	**August 30, 2002**	**August 31, 2001**	**August 30, 2002**
Revenues	$34,914	$42,027	$80,625	$94,245
Costs of services	20,926	25,598	48,117	57,541
Gross profit	13,988	16,429	32,508	36,704
Selling, general and administrative expenses	9,809	11,754	23,707	26,814
Income from operations	4,179	4,675	8,801	9,890
Interest and other income (expense), net	308	(61)	923	156
Income before provision for income taxes and minority interest	4,487	4,614	9,724	10,046
Provision for income taxes	(1,894)	(2,079)	(4,104)	(4,260)
Income before minority interest	2,593	2,535	5,620	5,786
Minority interest	(186)	52	(96)	368
Net income	$ 2,407	$ 2,587	$ 5,524	$ 6,154
Net income per share:				
Basic	$ 0.26	$ 0.29	$ 0.61	$ 0.68
Diluted	$ 0.26	$ 0.28	$ 0.60	$ 0.66
Weighted average number of shares outstanding:				
Basic	9,108	9,068	9,107	9,055
Diluted	9,287	9,303	9,182	9,302

See accompanying notes.

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

	November 24, 2001	August 30, 2002
Assets		
Current assets:		
Cash and cash equivalents	$21,880	$ 16,259
Short-term investments	1,748	144
Accounts receivable, net of allowances of $914 in 2001 and $1,617 in 2002 for doubtful accounts	21,915	23,716
Unbilled services	15,350	14,394
Prepaid expenses	849	1,001
Deferred income taxes	1,437	1,483
Total current assets	63,179	56,997
Property and equipment, net	7,569	8,230
Goodwill and other intangible assets, net of accumulated amortization of $2,561 in 2001 and $2,813 in 2002	18,966	26,961
Long-term investments	3,433	5,203
Deferred income taxes, net of current portion	328	328
Other assets	3,415	3,373
Total assets	$96,890	$101,092
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,044	$ 5,884
Accrued expenses	13,259	13,127
Deferred revenue and other liabilities	234	468
Current portion of notes payable to former stockholders	126	194
Current portion of notes payable	2,407	1,344
Total current liabilities	22,070	21,017
Notes payable to former stockholders, net of current portion	—	194
Notes payable, net of current portion	612	—
Deferred rent	1,963	1,562
Minority interest	2,243	1,875
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, no par value; 25,000,000 shares authorized; 9,107,529 shares in 2001 and 9,079,405 shares in 2002 issued and outstanding	46,057	46,075
Receivable from stockholder	(4,500)	(4,500)
Deferred compensation	(117)	(52)
Retained earnings	28,778	34,935
Foreign currency translation	(216)	(14)
Total stockholders' equity	70,002	76,444
Total liabilities and stockholders' equity	$96,890	$101,092

See accompanying notes.

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

	Forty Weeks Ended	
	August 31, 2001	August 30, 2002
Operating activities:		
Net income	$ 5,524	$ 6,154
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,558	2,128
Deferred rent	(96)	(401)
Deferred income taxes	—	(46)
Minority interest	96	(368)
Changes in operating assets and liabilities, net of effect of acquired business:		
Accounts receivable	(2,542)	(194)
Unbilled services	(3,284)	2,163
Prepaid expenses and other assets	(2,467)	157
Accounts payable, accrued expenses, and other liabilities	1,503	(1,478)
Net cash provided by operating activities	1,292	8,115
Investing activities:		
Purchase of property and equipment	(2,684)	(2,107)
Sale (purchase) of investments, net	1,376	(166)
Acquisition of business, net of cash acquired	—	(10,345)
Net cash used in investing activities	(1,308)	(12,618)
Financing activities:		
Payments on notes payable	—	(1,675)
Payments on notes payable to former stockholders	(616)	(320)
Issuance of common stock	134	127
Issuance of common stock upon exercise of stock options	—	548
Net cash used in financing activities	(482)	(1,320)
Effect of foreign exchange rates on cash and cash equivalents	94	202
Net decrease in cash and cash equivalents	(404)	(5,621)
Cash and cash equivalents at beginning of period	20,305	21,880
Cash and cash equivalents at end of period	$19,901	$ 16,259
Noncash financing activities:		
Payable in exchange for treasury stock	$ —	$ 582
Supplemental cash flow information:		
Cash paid for income taxes	$ 3,230	$ 4,611

See accompanying notes.

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

1. Description of Business

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

2. Unaudited Interim Consolidated Financial Statements and Estimates

The consolidated statements of income for the sixteen and forty weeks ended August 31, 2001 and August 30, 2002, the consolidated balance sheet as of August 30, 2002, and the consolidated statements of cash flows for the forty weeks ended August 31, 2001 and August 30, 2002, are unaudited. The balance sheet as of November 24, 2001 is derived from the audited financial statements as of that date. In the opinion of management, these statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of CRA's consolidated financial position, results of operations, and cash flows.

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

3. Principles of Consolidation

The consolidated financial statements include the accounts of CRA, its wholly owned subsidiaries, and NeuCo, Inc. (NeuCo), a corporation founded by CRA and an affiliate of Commonwealth Energy Systems in June 1997. CRA has a 49.82 percent interest in NeuCo, which combined with other considerations represents substantive control. If an event causes CRA to no longer have substantive control, CRA would account for its ownership interest in NeuCo using the equity method. The portion of the results of operations of NeuCo allocable to its minority owners is shown as "minority interest" on CRA's statement of income, and that amount, along with the capital contributions to NeuCo of its minority owners, is shown as "minority interest" on CRA's balance sheet. All significant intercompany accounts have been eliminated.

4. Fiscal Year

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

5. Revenue Recognition

Revenues from most engagements are recognized as services are provided based upon hours worked and contractually agreed-upon hourly rates. Some of our revenues are derived from fixed-price engagements, for which revenue is recognized using the percentage of completion method based on the ratio of costs incurred to the total estimated project costs. Revenues also include expenses billed to clients, which include travel and other out-of-pocket expenses, charges for support staff and outside contractors, and other reimbursable expenses. An allowance is provided for any amounts considered uncollectible.

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

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

6. Cash Equivalents and Investments

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

7. Goodwill and Other Intangible Assets

Goodwill represents the cost in excess of fair market value of net assets of acquired businesses. Prior to fiscal 2002, goodwill was amortized on a straight-line basis over periods ranging from 15 to 20 years. Intangible assets consist principally of costs allocated to noncompete agreements and are amortized on a straight-line basis over the related terms of the agreements (three to ten years).

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

8. Impairment of Long-Lived Assets

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

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

9. Property and Equipment

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

10. Net Income per Share

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

	Sixteen Weeks Ended		*Forty Weeks Ended*	
	August 31, 2001	**August 30, 2002**	**August 31, 2001**	**August 30, 2002**
Basic weighted average shares outstanding	9,108	9,068	9,107	9,055
Weighted average equivalent shares	179	235	75	247
Diluted weighted average shares outstanding	9,287	9,303	9,182	9,302

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11. Comprehensive Income

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

	Forty Weeks Ended	
	August 31, 2001	**August 30, 2002**
Net income	$5,524	$6,154
Change in foreign currency translation	94	202
Comprehensive income	$5,618	$6,356

12. 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.

13. Business Acquisition

On May 10, 2002, CRA completed the acquisition of certain assets of the North American and U.K. operations of Arthur D. Little, Inc.'s Chemical and Energy practice (ADL) for $10.3 million in cash. The acquisition has been accounted for under purchase accounting. The effective date of the acquisition of the North American portion was April 29, 2002, while the effective date of the U.K. portion of the acquisition was May 10, 2002. The results of operations related to the acquisitions have been included in the accompanying statements of operations from the respective effective dates. Management believes that the ADL acquisition enhances its existing position in consulting to the chemical and petroleum industries. CRA acquired 75 employee consultants, accounts receivable and the ongoing client projects being handled by the acquired employee consultants. Of the $10.3 million purchase price, $8.2 million was recorded as goodwill and intangibles, the final allocation of which is in process of being completed. The portion of the purchase price attributable to goodwill primarily related to the extensive industry experience of the acquired employee consultants. The allocation of the purchase price was estimated at the time of acquisition, and is therefore subject to change, pending CRA's final analysis.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

Results of Operations-Sixteen weeks Ended August 31, 2001 Compared to Sixteen weeks Ended August 30, 2002

Revenues. Revenues increased $7.1 million, or 20.4%, from $34.9 million for the third quarter of fiscal 2001 to $42.0 million for the third quarter of fiscal 2002. The increase in revenues was due primarily to an increase in the number of employee consultants, an increase in consulting services performed for new and existing clients during the period, including clients acquired as a result of the personnel additions from ADL, and to a lesser extent, increased billing rates for our employee consultants. This increase was offset by a decrease in utilization of our employee consultants and a decrease in demand for NeuCo software and services. Revenues derived from fixed-price engagements increased from 13.5% for the third quarter of fiscal 2001 to 28.7% for the third quarter of fiscal 2002. This increase is primarily due to the acquisition from ADL, which traditionally entered into fixed-price engagements. The total number of employee consultants increased from 275 at the end of the third quarter of fiscal 2001 to 347 at the end of the third quarter of fiscal 2002. Utilization was 78% for the third quarter of fiscal 2001 as compared to 71% for the third quarter of fiscal 2002. Average utilization decreased in the third quarter of fiscal 2002 primarily because of the ADL acquisition. We experienced revenue increases during the third quarter of fiscal 2002 primarily in our business consulting services; in particular, we generated significant revenue increases in our chemicals and petroleum and finance practice areas. These increases were partially offset by revenue decreases in our legal and regulatory consulting services.

Costs of Services. Costs of services increased by $4.7 million, or 22.3%, from $20.9 million in the third quarter of fiscal 2001 to $25.6 million in the third quarter of fiscal 2002. As a percentage of revenues, costs of services increased from 59.9% in the third quarter of fiscal 2001 to 60.9% in the third quarter of fiscal 2002. The increase as a percentage of revenues was due primarily to lower utilization of our employee consultants.

Selling, General, and Administrative. Selling, general, and administrative expenses increased by $1.9 million, from $9.8 million in the third quarter of fiscal 2001 to $11.8 million in the third quarter of fiscal 2002. As a percentage of revenues, selling, general, and administrative expenses decreased slightly from 28.1% in the third quarter of fiscal 2001 to 28.0% in the third quarter of fiscal 2002. The primary contributors to the decrease as a percentage of revenues were a decrease in the elimination of amortization of goodwill resulting from our early adoption of SFAS No. 142 and a decrease in other professional fees, offset by an increase in rent expense in the third quarter of fiscal 2002

Interest and Other Income (Expense), Net. Net interest and other income decreased by $369,000, or 120%, from net interest and other income of $308,000 in the third quarter of fiscal 2001 to net expense of $61,000 in the third quarter of fiscal 2002. This decrease resulted primarily from the overall decline in short-term interest rates and an increase in interest expense related to notes payable.

Provision for Income Taxes. The provision for income taxes increased by $185,000 to $2.1 million in the third quarter of fiscal 2002. Our effective income tax rate increased from 42.2% in the third quarter of fiscal 2001 to 45.1% in the third quarter of fiscal 2002. The higher rate in the third quarter of fiscal 2002 was due primarily to NeuCo net losses, for which NeuCo cannot receive a current state tax benefit due to statutory restrictions.

Minority Interest. Minority interest in the results of operations of NeuCo decreased from a profit of $186,000 in the third quarter of fiscal 2001 to a loss of $52,000 in the third quarter of fiscal 2002 due to a decrease in revenue and profit in NeuCo.

Results of Operations-Forty weeks Ended August 31, 2001 Compared to Forty weeks Ended August 30, 2002

Revenues. Revenues increased $13.6 million, or 16.9%, from $80.6 million for the forty weeks ended August 31, 2001 to $94.2 million for the forty weeks ended August 30, 2002. The increase in revenues was due primarily to an increase in the number of employee consultants, an increase in consulting services performed for new and existing clients during the period, including clients acquired as a result of the personnel additions from both the North American operations of ADL beginning April 29, 2002 and from the U.K. operations of ADL beginning May 10, 2002, and to a lesser extent, increased billing rates for our employee consultants. This increase was offset by a decrease in utilization of our employee consultants. Revenues derived from fixed-price engagements increased from 12.1% for the forty weeks ended August 31, 2001 to 19.2% for the forty weeks ended August 30, 2002. This increase is primarily due to the acquisition from ADL, which traditionally entered into fixed price engagements. The total number of employee consultants increased from 275 at the end of the forty weeks ended August 31, 2001 to 347 at the end of the forty weeks ended August 30, 2002. Utilization was 76% for the forty weeks ended August 31, 2001 as compared to 70% for the forty weeks ended August 30, 2002. Average utilization decreased for the forty weeks ended August 30, 2002 in part because of the ADL acquisition. We experienced revenue increases during the forty weeks ended August 30, 2002 primarily in our business consulting services; in particular, we generated significant revenue increases in our chemicals and petroleum, finance and electric utility practice areas. These increases were partially offset by revenue decreases in legal and regulatory consulting services.

Costs of Services. Costs of services increased by $9.4 million, or 19.6%, from $48.1 million in the forty weeks ended August 31, 2001 to $57.5 million in the forty weeks ended August 30, 2002. As a percentage of revenues, costs of services increased from 59.7% in the forty weeks ended August 31, 2001 to 61.1% in the forty weeks ended August 30, 2002. The increase as a percentage of revenues was due primarily to lower utilization of our employee consultants.

Selling, General, and Administrative. Selling, general, and administrative expenses increased by $3.1 million, from $23.7 million in the forty weeks ended August 31, 2001 to $26.8 million in the forty weeks ended August 30, 2002. As a percentage of revenues, selling, general, and administrative expenses decreased from 29.4% in the forty weeks ended August 31, 2001 to 28.5% in the forty weeks ended August 30, 2002. The primary contributors to the decrease as a percentage of revenues were a decrease in commission payments to outside experts and the elimination of amortization of goodwill in the forty weeks ended August 30, 2002 resulting from our early adoption of SFAS No. 142. These decreases were partially offset by increases in overall compensation for support staff and rent expense.

Interest and Other Income (Expense), Net. Net interest and other income decreased by $767,000, or 83.1%, from $923,000 in the forty weeks ended August 31, 2001 to $156,000 in the forty weeks ended August 30, 2002. This decrease resulted primarily from the overall decline in short-term interest rates and an increase in interest expense related to notes payable.

Provision for Income Taxes. The provision for income taxes increased by $156,000 to $4.3 million in the forty weeks ended August 30, 2002. Our effective income tax rate increased slightly from 42.2% in the forty weeks ended August 31, 2001 to 42.4% in the forty weeks ended August 30, 2002. The higher tax rate is primarily due to NeuCo net losses for which NeuCo cannot receive a current state tax benefit due to statutory restrictions, offset by the use of foreign net operating losses previously fully reserved.

Minority Interest. Minority interest in the results of operations of NeuCo decreased from a gain of $96,000 in the forty weeks ended August 31, 2001 to a loss of $368,000 in the forty weeks ended August 30, 2002 due to a decrease in revenue and profit in NeuCo.

Liquidity and Capital Resources

As of August 30, 2002, we had cash and cash equivalents of $16.3 million, short-term and long-term investments of $5.3 million, and working capital of $36.0 million. Net cash provided by operating activities for the forty weeks ended August 30, 2002 was $8.1 million. Cash generated from operating activities resulted primarily from net income of $6.2 million, depreciation and amortization of $2.1 million and a decrease in unbilled services of $2.2 million, offset in part by a decrease in accounts payable of $1.5 million.

Net cash used in investing activities for the forty weeks ended August 30, 2002 was $12.6 million, primarily consisting of $10.3 million used to purchase certain assets of the North American and U.K. operations of ADL and $2.1 million used to purchase property and equipment.

Net cash used in financing activities for the forty weeks ended August 30, 2002 was $1.3 million, consisting principally of payments on notes payable in connection with the acquisition of a line of business from PA Consulting Group, Inc. in July 2001. These notes are payable on a quarterly basis through December 31, 2002.

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

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

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

Factors Affecting Future Performance

We depend upon only a few key employees to generate revenue

Our business consists primarily of the delivery of professional services, and accordingly, our success depends heavily on the efforts, abilities, business generation capabilities, and project execution of our employee consultants. If we lose the services of any employee consultant or if our employee consultants fail to generate business or otherwise fail to perform effectively, that loss or failure could harm our business. We do not have any employment agreements with our employee consultants, and they can terminate their relationships with us at will and without notice. The noncompetition agreements that we have with many of our employee consultants offer us only limited protection and may not be enforceable in every jurisdiction.

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

Any failure on our part to manage our expanding business successfully could harm our business. We have continued to open new offices in new geographic areas, including foreign locations, and to expand our employee base as a result of both internal growth and acquisitions. Operations in our foreign offices are subject to foreign currency fluctuations and cultural differences that could affect utilization. Opening and managing new offices requires extensive management supervision and tends to increase our overall selling, general and administrative expenses. Expansion creates new and increased management, consulting, and training responsibilities for our employee consultants. Expansion also increases the demands on our internal systems, procedures, and controls, and on our managerial, administrative, financial, marketing and other resources. We depend heavily upon the managerial, operational, and administrative skills of our officers, particularly James C. Burrows, our President and Chief Executive Officer, to manage our expansion. New responsibilities and demands may adversely affect the overall quality of our work.

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

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

Clients can terminate engagements with us at any time

Many of our engagements generally depend upon disputes, proceedings, or transactions that involve our clients. Our clients may decide at any time to seek to resolve the dispute or proceeding, or abandon the transaction. Our engagements can therefore terminate suddenly and without advance notice to us. If an engagement is terminated unexpectedly, the employee consultants working on the engagement could be underutilized until we assign them to other projects. Accordingly, the termination or significant reduction in the scope of a single large engagement could harm our business.

We depend on our antitrust and mergers and acquisitions consulting business

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

We derive our revenues from a limited number of large engagements

We derive a significant portion of our revenues from a limited number of large engagements. If we do not obtain a significant number of new large engagements each year, our business, financial condition, and results of operations could suffer. In general, the volume of work we perform for any particular client varies from year to year, and a major client in one year may not hire us again.

We enter into fixed-price engagements

We derive a portion of our revenue from fixed-price contracts. If we fail to estimate accurately the resources required for a fixed-price project or fail to satisfy our contractual obligations in a manner consistent with the project budget, then our costs to complete the project could increase substantially. We have occasionally had to commit unanticipated additional resources to complete projects, and we may have to take similar action in the future, which would 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 requires us to continually hire highly qualified, highly educated consultants as employees. Our failure to recruit and retain a significant number of qualified employee consultants could harm our business. Relatively few potential employees meet our hiring criteria, and we face significant competition for these employees from our direct competitors, academic institutions, government agencies, research firms, investment banking firms, and other enterprises. Many of these competing employers are able to offer potential employees significantly greater compensation and benefits or more attractive lifestyle choices, career paths, or geographic locations than we can. Competition for these employee consultants has increased our labor costs, and a continuation of this trend could have a material adverse effect on our margins and results of operations.

We depend on our outside experts

We depend on our relationships with our exclusive outside experts. In each of fiscal 2000 and fiscal 2001, six of our exclusive outside experts generated engagements that accounted for approximately 30% and 28% of our revenues in those years. We believe that these outside experts are highly regarded in their fields and that each offers a combination of knowledge, experience, and expertise that would be very difficult to replace. We also believe that we have been able to secure some engagements and attract consultants in part because we could offer the services of these outside experts. Most of these outside experts can limit their relationships with us at any time for any reason. These reasons could include affiliations with universities with policies that prohibit accepting specified engagements, the pursuit of other interests, and retirement.

As of August 30, 2002, 32 of our outside experts have entered noncompetition agreements with us. The limitation or termination of any of their relationships with us or competition from any of them after these agreements expire could harm our business. To meet our long-term growth targets, we need to establish ongoing relationships with additional outside experts who have reputations as leading experts in their fields. We may be unable to establish relationships with any additional outside experts. In addition, any relationship that we do establish may not help us meet our objectives or generate the revenues or earnings that we anticipate.

Acquisitions may disrupt our operations or adversely affect our results

We regularly evaluate opportunities to acquire other businesses. The expenses we incur evaluating and pursuing acquisitions could have a material adverse effect on our results of operations. If we acquire a business, such as the recent acquisition from ADL, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to achieve the financial, operational, and other benefits we anticipate from any acquisition. Competition for future acquisition opportunities in our markets could increase the price we pay for businesses we acquire and could reduce the number of potential acquisition targets. Further, acquisitions may involve a number of special risks, such as:

– one-time charges related to the acquisition

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

– loss of key acquired personnel

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

– dilutive issuances of equity securities

– the assumption of legal liabilities

– amortization of acquired intangible assets

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

– difficulties in integrating diverse corporate cultures

– additional conflicts of interests

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

Our international operations create special risks

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

– greater difficulties in managing and staffing foreign operations

– cultural differences that adversely affect utilization

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

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

– greater difficulties in collecting accounts receivable

– longer sales cycles

– restrictions on the repatriation of earnings

– potentially adverse tax consequences, such as trapped foreign losses

– less stable political and economic environments

As a result of the acquisition from ADL, we conduct a significant portion of our business in the Middle East. In light of the significant political instability in the region and the substantial potential for an outbreak of hostilities, we may not be able to continue to conduct business in that region without interruption, which could seriously harm our revenues and results of operations.

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

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

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

– the number of weeks in the quarter

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

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

– employee hiring

– the extent of discounting or cost overruns

– severe weather conditions and other factors affecting employee productivity

– collectibility of receivables

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

Potential conflicts of interests may preclude us from accepting some engagements

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

Maintaining our professional reputation is crucial to our future success

Our ability to secure new engagements and hire qualified consultants as employees depends heavily on our overall reputation as well as the individual reputations of our 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. Any factor that diminishes our reputation or the reputations of any of our personnel or outside experts could make it substantially more difficult for us to compete successfully for both new engagements and qualified consultants. Any loss of reputation could harm our business.

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

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

Our engagements may result in professional liability

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

The price of our common stock may be volatile

Our stock price has been volatile. From August 31, 2001 to August 30, 2002, the trading price of our common stock ranged from $11.62 to $22.29. Many factors may cause the market price of our common stock to fluctuate significantly, including the following:

– variations in our quarterly results of operations

– the hiring or departure of key personnel or outside experts

– changes in our professional reputation

– the introduction of new services by us or our competitors

– acquisitions or strategic alliances involving us or our competitors

– changes in accounting principles

– changes in the legal and regulatory environment affecting clients

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

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

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

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

Our charter and by-laws and Massachusetts law may deter takeovers

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

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

As of August 30, 2002, we were exposed to market risks, which primarily include changes in U.S. interest rates.

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

ITEM 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION:

ITEM 1. Legal Proceedings

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

ITEM 5. Other Information

Certification Under Sarbanes-Oxley Act

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

ITEM 6. Exhibits and Reports on Form 8-K

Reports on Form 8-K

CRA did not file any reports on Form 8-K during the quarter ended August 30, 2002.

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SIGNATURES

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

	Charles River Associates Incorporated
Date: October 11, 2002	By: /s/ James C. Burrows James C. Burrows President and Chief Executive Officer
Date: October 11, 2002	By: /s/ J. Phillip Cooper J. Phillip Cooper Executive Vice President and Interim Chief Financial Officer (Principal Financial and Accounting Officer)

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of Charles River Associates Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 11, 2002

By: /s/ James C. Burrows
James C. Burrows
President and Chief Executive Officer

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

1. I have reviewed this quarterly report on Form 10-Q of Charles River Associates Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: October 11, 2002

By: /s/ J. Phillip Cooper
J. Phillip Cooper
Executive Vice President and Interim
Chief Financial Officer