

CRA INTERNATIONAL, INC.  
Form 10-Q  
October 10, 2007

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**UNITED STATES  
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 August 31, 2007

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

Commission file number: 000-24049

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**CRA International, Inc.**

(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at October 8, 2007

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Common Stock, no par value per share

10,989,070 shares

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## CRA International, Inc.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## CRA International, Inc.

## Condensed Consolidated Statements of Income (unaudited)

*(In thousands, except per share data)*

	Sixteen Weeks Ended		Forty Weeks Ended	
	August 31, 2007	September 1, 2006	August 31, 2007	September 1, 2006
Revenues	\$ 124,301	\$ 107,001	\$ 295,938	\$ 263,568
Costs of services	77,194	67,029	185,083	163,560
Gross profit	47,107	39,972	110,855	100,008
Selling, general and administrative expenses	32,120	24,984	75,353	64,939
Income from operations	14,987	14,988	35,502	35,069
Interest income	1,546	1,597	4,493	3,831
Interest expense	(1,004)	(1,025)	(2,529)	(2,561)
Other income (expense)	(226)	(130)	(454)	(303)
Income before provision for income taxes, minority interest, and equity method investment gain (loss)	15,303	15,430	37,012	36,036
Provision for income taxes	(6,519)	(6,218)	(14,179)	(14,575)
Income before minority interest and equity method investment gain (loss)	8,784	9,212	22,833	21,461
Minority interest				141
Equity method investment gain (loss), net of tax	(196)	(496)	(528)	(496)
Net income	\$ 8,588	\$ 8,716	\$ 22,305	\$ 21,106
Net income per share:				
Basic	\$ 0.77	\$ 0.76	\$ 1.96	\$ 1.85
Diluted	\$ 0.72	\$ 0.71	\$ 1.81	\$ 1.73
Weighted average number of shares outstanding:				
Basic	11,133	11,529	11,363	11,389
Diluted	11,955	12,252	12,322	12,207

See accompanying notes to the condensed consolidated financial statements.

## CRA International, Inc.

## Condensed Consolidated Balance Sheets (unaudited)

(In thousands, except share data)

	August 31, 2007	November 25, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 83,982	\$ 131,570
Accounts receivable, net of allowances of \$9,408 in 2007 and \$6,324 in 2006	75,109	71,161
Unbilled services	45,624	39,319
Prepaid expenses and other assets	5,472	3,701
Deferred income taxes	11,080	13,998
Total current assets	221,267	259,749
Property and equipment, net	27,480	25,055
Goodwill	151,102	141,253
Intangible assets, net of accumulated amortization of \$6,252 in 2007 and \$4,976 in 2006	7,269	8,286
Deferred income taxes, net of current portion	499	2,425
Other assets	15,709	9,128
Total assets	\$ 423,326	\$ 445,896
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 13,728	\$ 11,939
Accrued expenses	64,496	80,788
Deferred revenue and other liabilities	1,066	892
Current portion of deferred compensation	1,297	2,865
Deferred income taxes	83	
Current portion of notes payable to former shareholders	242	242
Current portion of convertible debentures payable		3,000
Total current liabilities	80,912	99,726
Convertible debentures payable, net of current portion	90,000	87,000
Deferred rent and other non-current liabilities	7,499	6,416
Deferred compensation and other non-current liabilities	3,631	694
Deferred income taxes, net of current portion	3,807	3,284
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; none issued and outstanding		
Common stock, no par value; 25,000,000 shares authorized; 10,739,587 and 11,462,082 shares issued and outstanding in 2007 and 2006, respectively	90,087	128,582
Receivables from employees	(917)	(2,705)
Retained earnings	139,340	117,035
Foreign currency translation	8,967	5,864
Total shareholders' equity	237,477	248,776
Total liabilities and shareholders' equity	\$ 423,326	\$ 445,896

See accompanying notes to the condensed consolidated financial statements.



## CRA International, Inc.

## Condensed Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Forty Weeks Ended	
	August 31, 2007	September 1, 2006
<b>Operating activities:</b>		
Net income	\$ 22,305	\$ 21,106
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,729	7,610
Loss on disposal of property and equipment	304	88
Deferred rent	1,240	(790)
Share-based compensation expense	4,091	3,543
Excess tax benefit from share-based compensation	(2,254)	
Deferred income taxes	5,716	(1,914)
Equity in losses of NeuCo	528	496
Minority interest		(141)
Changes in operating assets and liabilities, exclusive of acquisitions:		
Accounts receivable	(3,052)	(4,116)
Unbilled services	(5,742)	(6,926)
Prepaid expenses and other assets	(4,125)	(318)
Accounts payable, accrued expenses, and other liabilities	(14,550)	3,264
Net cash provided by operating activities	12,190	21,902
<b>Investing activities:</b>		
Purchase of property and equipment	(8,681)	(4,809)
Reduction in cash due to deconsolidation of NeuCo		(4,815)
Acquisitions of business, net of cash acquired	(7,113)	(19,119)
Payments on notes receivables	(2,350)	
Net cash used in investing activities	(18,144)	(28,743)
<b>Financing activities:</b>		
Excess tax benefits from share-based compensation	2,254	1,372
Repurchase of common stock	(56,723)	(2,535)
Issuance of common stock upon exercise of stock options	10,861	6,396
Collections on receivables from shareholders	2,214	409
Tax withholding payments reimbursed by restricted shares	(349)	
Net cash provided by (used in) financing activities	(41,743)	5,642
Effect of foreign exchange rates on cash and cash equivalents	109	(791)
Net decrease in cash and cash equivalents	(47,588)	(1,990)
Cash and cash equivalents at beginning of period	131,570	115,203
Cash and cash equivalents at end of period	\$ 83,982	\$ 113,213
<b>Non-cash investing activities:</b>		
Effect of equity method investment in NeuCo	\$	\$ (258)

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**Forty Weeks Ended**

**Non-cash financing activities:**

Issuance of common stock for acquired business	\$	618	\$	5,409
Notes payable issued for acquired business	\$	371	\$	
Notes receivable in exchange for shares	\$		\$	60

**Supplemental cash flow information:**

Cash paid for income taxes	\$	9,346	\$	17,374
		<u>          </u>		<u>          </u>
Cash paid for interest	\$	2,743	\$	2,722
		<u>          </u>		<u>          </u>

See accompanying notes to the condensed consolidated financial statements.



## CRA International, Inc.

## Condensed Consolidated Statement of Shareholders' Equity (unaudited)

*(In thousands, except share data)*

	Common Stock		Receivables from Employees	Retained Earnings	Foreign Currency Translation	Total Shareholders' Equity
	Shares Issued	Amount				
<b>BALANCE AT NOVEMBER 25, 2006</b>	11,462,082	\$ 128,582	\$ (2,705)	\$ 117,035	\$ 5,864	\$ 248,776
Net income				22,305		22,305
Foreign currency translation adjustment					3,103	3,103
Comprehensive income						25,408
Exercise of stock options	416,929	10,861				10,861
Share-based compensation expense for employees		4,025				4,025
Restricted share vesting	28,011					
Repurchase of vested employee restricted shares for tax withholding	(7,837)	(402)				(402)
Shares repurchased	(1,172,286)	(56,723)				(56,723)
Tax benefit on stock option exercises and restricted share vesting		3,060				3,060
Issuance of common stock in connection with business acquisitions	12,688	618				618
Notes receivable issued to employees			(470)			(470)
Payments received on notes receivable from employees			2,258			2,258
Share-based compensation expense for non-employees		66				66
<b>BALANCE AT AUGUST 31, 2007</b>	10,739,587	\$ 90,087	\$ (917)	\$ 139,340	\$ 8,967	\$ 237,477

See accompanying notes to the condensed consolidated financial statements.

**CRA International, Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**1. Description of Business**

CRA International, Inc. (the "Company," or "CRA") is a worldwide leading economic, financial, and management consulting services 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, regulatory, and financial consulting and business consulting. CRA operates in only one business segment, which is consulting services.

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

The condensed consolidated statements of income for the sixteen and forty weeks ended August 31, 2007, and September 1, 2006, the condensed consolidated balance sheet as of August 31, 2007, the condensed consolidated statements of cash flows for the forty weeks ended August 31, 2007, and September 1, 2006, and the condensed consolidated statement of shareholders' equity for the forty weeks ended August 31, 2007, are unaudited. The November 25, 2006 consolidated balance sheet is derived from CRA's audited consolidated 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 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 CRA's acquired companies since their respective dates of acquisition.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make significant estimates and judgments 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. Estimates in these consolidated financial statements include, but are not limited to, accounts receivable allowances, revenue recognition on fixed price contracts, depreciation of property and equipment, share-based compensation, valuation of acquired intangible assets, impairment of long lived assets, including goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, and accrued bonuses and other accrued expenses. These items are monitored and analyzed by the Company 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. CRA bases its estimates on historical experience and various other assumptions that CRA believes to be reasonable under the circumstances. Actual results may differ from those estimates if CRA's assumptions based on past experience or other assumptions do not turn out to be substantially accurate.

**3. Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. In addition, the consolidated financial statements through the second quarter ended May 12, 2006 included NeuCo, Inc. ("NeuCo"), a company founded by CRA and an affiliate of Commonwealth Energy Systems in June 1997. NeuCo's financial results were consolidated with those of CRA through the second quarter ended May 12, 2006, as CRA held an approximate 50% interest in NeuCo, which combined with the fact that CRA officers' held three Board of Directors seats and other considerations, represented control. These directors received NeuCo stock options in connection with their NeuCo Board of Director responsibilities. The portion of the results of operations of NeuCo

allocable to its other owners was shown as "minority interest" on CRA's consolidated statements of income. During the third quarter ended September 1, 2006, NeuCo completed the acquisition of Pegasus Technologies, Inc. ("Pegasus"). Through the acquisition of Pegasus, the Company's interest in NeuCo was reduced to 36.4%. As such, the Company began accounting for its investment in NeuCo under the equity method of accounting from the date of this change. For further details regarding this transaction, see Note 5 of the notes to condensed consolidated financial statements. All significant intercompany accounts have been eliminated.

#### **4. Reclassifications**

In recent years, the information technology group gradually became less involved in client engagements and more focused on internal systems. Accordingly, certain expenses related to CRA's information technology group not billable to clients in the prior period's consolidated statements of income have been reclassified to conform to the current year's presentation. For the sixteen and forty weeks ended September 1, 2006, \$1.2 million and \$3.0 million has been reclassified from "costs of services" to "selling, general, and administrative expenses", respectively. For the sixteen and forty weeks ended August 31, 2007, the information technology group expenses totaled \$1.4 million and \$3.5 million, respectively.

#### **5. Equity Investment**

During the third quarter ended September 1, 2006, NeuCo completed the acquisition of Ohio-based Pegasus, a majority-owned subsidiary of Rio Tinto America Services Company. As a result of the transaction, the Company's interest in NeuCo has been reduced to 36.4%. As such, starting in the third quarter ended September 1, 2006, the Company began accounting for its remaining investment in NeuCo under the equity method of accounting. Prior to NeuCo's acquisition of Pegasus and the resulting reduction of CRA's interest in NeuCo, NeuCo's financial results had been consolidated with that of CRA. This is also referred to herein as the "deconsolidation" of NeuCo.

The equity method of accounting is used for investments in which CRA has the ability to exercise significant influence but does not have effective control. Significant influence is generally deemed to exist when CRA has an ownership interest in the voting stock of the investee of between 20% and 50%. Under this method, the investment, originally recorded at cost and adjusted to reflect CRA's share of changes in NeuCo's capital, is further adjusted to recognize the Company's share of net earnings or losses of NeuCo as they occur rather than as dividends or other distributions are received. CRA's share of net earnings or loss in NeuCo would also include any other-than-temporary declines in fair value recognized during the period, if any. Changes in CRA's proportionate share of the underlying equity of NeuCo, which result from the issuance of additional equity securities by NeuCo, are recognized as increases or decreases in shareholders' equity, net of any related tax effects.

The Company records its equity in the income or losses of NeuCo and reports such amounts in "equity method investment gain (loss), net of tax" in the accompanying condensed consolidated statements of income. During the first quarter of fiscal 2007, NeuCo changed its interim reporting schedule to a calendar month end, but its fiscal year end will remain the last Saturday in November. The first three fiscal quarters of CRA's fiscal year could include up to a three-week reporting lag between CRA's quarter end and the most recent financial statements available from NeuCo. CRA does

not believe the reporting lag will have a significant impact on CRA's consolidated statements of income or financial condition. For the sixteen and forty weeks ended August 31, 2007, the Company's equity in the losses of NeuCo totaled \$196,000 and \$528,000, respectively, which are net of tax benefits of \$137,000 and \$370,000, respectively. At August 31, 2007, the carrying value of the Company's equity investment in NeuCo was \$0.9 million and is reported in other non-current assets.

## **6. 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 2007 and 2006 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.

## **7. Revenue Recognition**

CRA derives substantially all of its revenues from the performance of professional services. The contracts that CRA enters into and operates under specify whether the engagement will be billed on a time-and-materials or a fixed-price basis. These engagements generally last three to six months, although some of CRA's engagements can be much longer in duration. Each contract must be approved by one of CRA's vice presidents.

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. In certain limited cases CRA provides services to its clients without sufficient contractual documentation to allow CRA to recognize revenue in accordance with U.S. GAAP. In these cases, where CRA invoices clients, these amounts are fully reserved until all criteria for recognizing revenue are met. Most of CRA's revenue is 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. 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. CRA derived 7.1% and 5.9% of revenues from fixed-price engagements in the sixteen and forty weeks ended August 31, 2007, respectively. CRA derived 5.9% and 5.1% of revenues from fixed-price engagements in the sixteen and forty weeks ended September 1, 2006, respectively. 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 CRA's clients. The fixed-price contracts generally include a termination provision that converts 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. CRA's management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, 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, CRA has occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated income or losses on those contracts. CRA may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

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

	Sixteen Weeks Ended		Forty Weeks Ended	
	August 31, 2007	September 1, 2006	August 31, 2007	September 1, 2006
Reimbursable expenses billed to clients	\$ 16,990	\$ 12,550	\$ 36,815	\$ 30,412

CRA maintains accounts receivable allowances for estimated losses resulting from clients' failure to make required payments. The Company bases its estimates on historical collection experience, current trends, and credit policy. In determining these estimates, CRA examines historical write-offs of its receivables and reviews client accounts to identify any specific customer collection issues. If the financial condition of CRA's customers were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances may be required.

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 rendered.

## 8. Goodwill

The changes in the carrying amount of goodwill during the forty weeks ended August 31, 2007, are as follows (in thousands):

Balance at November 25, 2006	\$ 141,253
Goodwill adjustments	7,588
Effect of foreign currency translation	2,261
Balance at August 31, 2007	\$ 151,102

The purchase agreements for the acquisitions completed in fiscal 2006, fiscal 2005, and fiscal 2004 provide for additional purchase consideration for up to five years following the transactions, if specific performance targets are met. These earnouts are payable in cash and/or CRA common stock. The goodwill adjustments, during the forty weeks ended August 31, 2007, are primarily related to an additional \$7.5 million of purchase price related to these acquisitions, which will be paid in cash and common stock during fiscal 2007 or fiscal 2008. These payments, and any additional payments related to these contingencies, have been and will be accounted for as additional goodwill.

## 9. Private Placement of Convertible Debt

In 2004, CRA completed a private placement of \$90.0 million of 2.875% convertible senior subordinated debentures due 2034. 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. Pursuant to the terms of the indenture governing the debentures, since the closing stock price did not equal or exceed the \$50 per share contingent conversion trigger price for 20 out of 30 consecutive trading days ended on August 31, 2007, the market price conversion trigger was not satisfied and holders of the debentures are not able to exercise their right to convert the bonds during the fourth quarter of fiscal 2007. This test is repeated each fiscal quarter. To date, no conversions have occurred.

In June 2005, the Company amended its loan agreement with its bank to increase the existing line of credit from \$40.0 million to \$90.0 million to mitigate the potential liquidity risk, and to provide funding if required, in the event of conversion by the debenture holders. CRA believes that in the event the contingent conversion trigger price is met, it is unlikely that a significant percentage of bondholders will exercise their right to convert because the debentures have traded at a premium over their conversion value. Since holders of the debentures are not able to exercise their right to convert the bonds as of August 31, 2007, CRA has classified the \$90.0 million convertible debt as long-term debt as of August 31, 2007 in the accompanying condensed consolidated balance sheet. In May 2007, CRA amended its loan agreement to extend the maturity date on the line of credit from April 30, 2009 to April 30, 2010. It is CRA's intention to renew or replace the line of credit upon expiration, as desirable and available, which would allow CRA to continue to classify the convertible debentures as long-term debt, rather than short-term in future periods. In addition, the line of credit gives CRA additional flexibility to meet any unforeseen financial requirements.

The contingent interest feature included in the debenture represents an embedded derivative under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") that must be recorded at fair value as of August 31, 2007. The Company has determined that the fair value of the contingent interest feature is *de minimis* as of August 31, 2007, based upon economic, market and other conditions in effect as of that date. There are no other embedded derivatives associated with the Company's convertible debentures that are accounted for separately in accordance with FAS 133.

The Company has agreed with the debenture holders to reserve the maximum number of shares of common stock that may be issued upon conversion of the debentures.

## 10. Net Income per Share

Basic net income per share represents net income divided by the weighted average number of 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, unvested restricted shares, and shares underlying CRA's debentures using the treasury stock method. Under the treasury stock method, the amount the Company will receive for the share awards, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that would be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares at the

average share price for each fiscal period. A 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, 2007	September 1, 2006	August 31, 2007	September 1, 2006
Basic weighted average shares outstanding	11,133	11,529	11,363	11,389
Common stock equivalents:				
Stock options and restricted shares	402	507	479	518
Shares underlying the debentures	420	216	480	300
<b>Diluted weighted average shares outstanding</b>	<b>11,955</b>	<b>12,252</b>	<b>12,322</b>	<b>12,207</b>

During the sixteen and forty weeks ended August 31, 2007, CRA issued 23,909 and 152,470 restricted shares, respectively, that were not vested as of August 31, 2007. During the sixteen and forty weeks ended August 31, 2007, CRA granted 7,500 and 32,500 options, respectively.

Under Emerging Issues Task Force of the Financial Accounting Standards Board (the "EITF") No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share", which is effective for periods ending after December 15, 2004, and EITF 90-19, "Convertible Bonds with Issuer Option to Settle for Cash upon Conversion", because of CRA's obligation to settle the par value of the convertible debentures in cash, the Company is not required to include any shares underlying the convertible debentures in its diluted weighted average shares outstanding until the average stock price per share for the quarter exceeds the \$40 conversion price and only to the extent of the additional shares CRA may be required to issue in the event CRA's conversion obligation exceeds the principal amount of the debentures converted. At such time, only the number of shares that would be issuable (under the "treasury" method of accounting for share dilution) are included, which is based upon the amount by which the average stock price exceeds the conversion price. The average stock price for the sixteen and forty weeks ended August 31, 2007 was \$49.16 and \$50.88 per share; therefore, 420,000 and 480,000 shares underlying the debentures were included in the diluted weighted average shares outstanding for the sixteen and forty weeks ended August 31, 2007, respectively. The average stock price for the sixteen and forty weeks ended September 1, 2006 was \$44.24 and \$46.20 per share; therefore, 216,000 and 300,000 shares underlying the debentures were included in the diluted weighted average shares outstanding for the sixteen and forty weeks ended September 1, 2006.

Basic weighted average shares outstanding for the sixteen and forty weeks ended August 31, 2007 decreased compared to the comparable periods in fiscal 2006, primarily as a result of the repurchase of shares by CRA during the second and third quarters of fiscal 2007, offset by stock issued due to stock option exercises and as additional purchase consideration under acquisitions CRA previously completed.

As part of the earnout provisions included in the acquisition agreements for acquisitions CRA completed in fiscal 2006, fiscal 2005, and fiscal 2004, CRA may settle a portion of its obligations through the issuance of its common stock. Issuance of these shares is contingent upon certain provisions of the acquisition agreements. All shares for which the necessary conditions underlying the

earnout provisions have been met as of August 31, 2007 are included in basic and diluted weighted average shares outstanding as of the point in time that the shares were issued.

## 11. Comprehensive Income

Comprehensive income represents net income reported in the accompanying condensed 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	
	August 31, 2007	September 1, 2006
Net income	\$ 22,305	\$ 21,106
Change in foreign currency translation	3,103	5,578
Comprehensive income	\$ 25,408	\$ 26,684

## 12. Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. CRA expects to adopt FIN 48 in fiscal 2008. CRA is in the process of evaluating the impact that FIN 48 will have on its consolidated statement of income or financial condition.

In June 2006, the EITF reached a conclusion on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement". The scope of EITF Issue No. 06-3 includes any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, and may include, but is not limited to, sales, use, value added, and some excise taxes. The EITF Issue No. 06-3 requires that the presentation of taxes on either a gross basis (included in revenues and costs) or a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. CRA collects goods and services and value added taxes from customers and records these amounts on a net basis, which is within the scope of EITF Issue No. 06-3. CRA adopted EITF Issue No. 06-3 in the second quarter of fiscal 2007. The adoption of EITF Issue No. 06-3 did not have any impact on CRA's consolidated statement of income or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of FAS 157, guidance for applying fair value was incorporated in several accounting pronouncements. FAS 157 provides a single definition of fair value,



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together with a framework for measuring it, and requires additional disclosure about fair value measurements. While FAS 157 does not add any new fair value measurements, it does change current practice. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. CRA expects to adopt FAS 157 in the first quarter of fiscal 2008. CRA has determined that the adoption of FAS 157 will not have a material impact on its consolidated statement of income or financial condition.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"). FAS 159 allows entities to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. The fair value option can be applied instrument by instrument, however the election is irrevocable. FAS 159 is effective for fiscal years beginning after November 15, 2007. CRA expects to adopt FAS 159 in the first quarter of fiscal 2008. CRA has determined that the adoption of FAS 159 will not have a material impact on its consolidated statement of income or financial condition.

### 13. Commitments & Contingencies

In connection with acquisitions completed during fiscal 2006, fiscal 2005, and fiscal 2004, CRA agreed to pay additional consideration, in cash, and common stock for some of these acquisitions, contingent on the achievement of specific performance targets by the respective acquired businesses. CRA believes that it will have sufficient funds to satisfy any obligations related to the contingent consideration. CRA expects to fund these contingent cash payments, if any, from existing cash resources, cash generated from operations, or financing transactions.

### 14. Accrued Expenses

Accrued expenses consist of the following (in thousands):

	August 31, 2007	November 25, 2006
Compensation and related expenses	\$ 56,954	\$ 69,467
Income taxes payable	512	3,589
Accrued interest	587	1,179
Other	6,443	6,553
Total	\$ 64,496	\$ 80,788

## 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, or SEC. You can read these documents at [www.sec.gov](http://www.sec.gov).

Our principal internet address is [www.crai.com](http://www.crai.com). Our website provides a link to a third-party website through which our annual, quarterly, and current reports, and amendments to those reports, are available free of charge. We believe these reports are made available as soon as reasonably practicable after we file them electronically 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 condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make significant estimates and judgments 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. Estimates in these condensed consolidated financial statements include, but are not limited to, accounts receivable allowances, revenue recognition on fixed price contracts, share-based compensation, valuation of acquired intangible assets, impairment of long lived assets, including goodwill, accrued and deferred income taxes, valuation allowances on deferred tax assets, and accrued bonuses. 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 condensed 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 Accounts Receivable Allowances.* 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. 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. In certain limited cases we provide services to our clients without sufficient contractual documentation to allow us to recognize revenue in accordance with U.S. GAAP. In these cases, where we invoice clients, these amounts, are fully reserved until all criteria for recognizing revenue are met. Most 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 management maintains contact with project managers to discuss the status of the projects and, for fixed-price engagements, management is updated on the budgeted costs and resources required to complete the project. These budgets are then used to calculate revenue recognition and to estimate the anticipated income or loss on the project. In the past, we have occasionally been required to commit unanticipated additional resources to complete projects, which have resulted in lower than anticipated income or losses on those contracts. We may experience similar situations in the future. Provisions for estimated losses on contracts are made during the period in which such losses become probable and can be reasonably estimated. To date, such losses have not been significant.

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

	Sixteen Weeks Ended		Forty Weeks Ended	
	August 31, 2007	September 1, 2006	August 31, 2007	September 1, 2006
Reimbursable expenses billed to clients	\$ 16,990	\$ 12,550	\$ 36,815	\$ 30,412

Our normal payment terms are 30 days from the invoice date. For both the sixteen weeks ended August 31, 2007, and September 1, 2006, our average days sales outstanding, or DSOs, were 108 days. 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 average daily revenues. Average 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 accounts receivable allowances for estimated losses resulting from clients' failure to make required payments. We base our estimates on our historical collection experience, current trends, and credit policy. 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. A failure to estimate accurately the accounts receivable allowances 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 August 31, 2007, and November 25, 2006, \$9.4 million and \$6.3 million was provided for accounts receivable allowances, respectively.

*Share-Based Compensation Expense.* We adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payments" ("SFAS No. 123R") in fiscal 2006 using the modified prospective application method and began accounting for our equity-based compensation using a fair value based recognition method. Under the fair value recognition requirements of SFAS No. 123R, share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense over the requisite service period of the award.

We recognize share-based compensation expense using the straight-line attribution method under SFAS No. 123R. We use the Black-Scholes option-pricing model to estimate the fair value of share-based awards. Option valuation models require the input of assumptions, including the expected life of share-based awards, the expected stock price volatility, the risk-free interest rate, and the expected dividend yield. The expected volatility and expected life are based on our historical experience. The risk-free interest rate is based on U.S. Treasury interest rates whose term is consistent with the expected life of the stock options. Expected dividend yield was not considered in the option pricing formula since we do not pay dividends and have no current plans to do so in the future. We will update these assumptions if changes are warranted. The forfeiture rate used was based upon historical experience. As required by SFAS No. 123R, we will adjust the estimated forfeiture rate based upon our actual experience.

*Impairment of Goodwill and Other Intangible Assets.* We account for acquisitions of consolidated companies under the purchase method of accounting pursuant to SFAS No. 141, "Business Combinations". Goodwill represents the purchase price of acquired businesses in excess of the fair market value of net assets acquired. Intangible assets consist principally of non-competition agreements, which are amortized on a straight-line basis over the related estimated lives of the agreements (eight to ten years), as well as customer relationships, backlog, trade names, and property leases, which are amortized on a straight-line basis over their remaining useful lives (one to ten years).

In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill and intangible assets with indefinite lives are not 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. Because we have one reporting segment, under SFAS No. 142, we utilize the entity-wide approach for assessing goodwill for impairment and compare its market value to its net book value to determine if an impairment exists. There were no impairment losses related to goodwill in fiscal 2006, nor were there any indications of impairment in the forty weeks ended August 31, 2007. If we determine through the impairment review process that goodwill has been impaired, we would record the impairment charge in our consolidated statement of income. The goodwill amount for acquisitions is initially recorded based upon a preliminary estimated purchase price allocation and is subject to change. Any preliminary purchase price allocation is based upon our estimate of fair value, and is finalized as we receive other information relevant to the acquisition, such as exit costs related to lease obligations.

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.

If we were to determine that an impairment review is required, we would review the expected future undiscounted cash flows to be generated by the assets. If 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.

*Accounting for Income Taxes.* We record income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized based upon anticipated 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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, 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 was recognized in our statements of income in fiscal 2006 and during the first forty weeks of fiscal 2007. If the realization of deferred tax assets is considered more likely than not, an adjustment to the net 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 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.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in several different tax jurisdictions. We are periodically reviewed by domestic and foreign tax authorities regarding the amount of taxes due. These reviews include questions regarding the timing and amount of deductions and the allocation of income among various tax jurisdictions. In evaluating the exposure associated with various filing positions, we record estimated reserves for probable exposures. Based on our evaluation of current tax positions, we believe that we have appropriately accrued for probable exposures.

**Results of Operations For the Sixteen and Forty Weeks Ended August 31, 2007, Compared to the Sixteen and Forty Weeks Ended September 1, 2006**

The following table provides operating information as a percentage of revenues for the periods indicated:

	Sixteen Weeks Ended		Forty Weeks Ended	
	August 31, 2007	September 1, 2006	August 31, 2007	September 1, 2006
Revenues	100.0%	100.0%	100.0%	100.0%
Costs of services	62.1	62.6	62.5	62.1
Gross margin	37.9	37.4	37.5	37.9
Selling, general and administrative expenses	25.8	23.4	25.5	24.6
Income from operations	12.1	14.0	12.0	13.3
Interest income	1.2	1.5	1.5	1.5
Interest expense	(0.8)	(1.0)	(0.9)	(1.0)
Other income (expense)	(0.2)	(0.1)	(0.1)	(0.1)
Income before provision for income taxes, minority interest, and equity method investment gain (loss)	12.3	14.4	12.5	13.7
Provision for income taxes	(5.2)	(5.8)	(4.8)	(5.6)
Income before minority interest and equity method investment gain (loss)	7.1	8.6	7.7	8.1
Minority interest				0.1
Equity method investment gain (loss), net of tax	(0.2)	(0.5)	(0.2)	(0.2)
Net income	6.9%	8.1%	7.5%	8.0%

**Results of Operations Sixteen Weeks Ended August 31, 2007, Compared to Sixteen Weeks Ended September 1, 2006**

*Revenues.* Revenues increased \$17.3 million, or 16.2%, to \$124.3 million for the third quarter of fiscal 2007 from \$107.0 million for the third quarter of fiscal 2006. This growth is due primarily to an increased demand for our services and to a lesser extent an increase in client reimbursable expenses. Our chemicals and petroleum, energy and environment, and forensic accounting and computing practices grew internationally and our competition, finance, and transfer pricing practices grew in North America. These increases were partially offset by a decrease in demand for our services in our pharmaceuticals practice. Overall, revenues outside of North America represented approximately 26% of revenues for the third quarter of fiscal 2007, compared with approximately 25% of revenues for the third quarter of fiscal 2006. The growth in revenue in our international offices is primarily due to an increase in demand for our services, largely in the Middle East, and expansion of our London-based practices. Our business consulting revenues grew more than 25% from the third quarter of fiscal 2006, which was driven by a greater demand for our services primarily in our chemicals and petroleum and energy and environment practice areas. Our chemicals and petroleum practice grew nearly 50% and energy and environment practice grew nearly 30% due to an increase in demand for our services. These increases were partially offset by our pharmaceuticals practice, which decreased nearly 30% from the third quarter of fiscal 2006, due primarily to a decrease in demand for our services related to two large client engagements. Our finance revenues grew nearly 20% from the third quarter of fiscal 2006, as new and ongoing projects in the finance and forensic accounting and computing practices increased. Our finance practice grew nearly 15% as a result of renewed activity in securities litigation cases as well as the start of several new engagements. Our economic litigation revenues grew by nearly 10% which was driven by an increase in revenue in the transfer pricing and competition practices due to an increase in a demand for our services. Our competition practice continues to be our largest practice in terms of revenue.

The total number of employee consultants increased to 767 at the end of the third quarter of fiscal 2007 from 723 at the end of the third quarter of fiscal 2006, which is primarily due to continued hiring and recruiting efforts. Increased billing rates for our employee consultants, which were phased in at the beginning of the first quarter of fiscal 2007, also contributed to our revenue growth. Utilization was 76% for the third quarters of fiscal 2007 and fiscal 2006. Revenues derived from fixed-price engagements increased to 7.1% of revenues for the third quarter of fiscal 2007 from 5.9% for the third quarter of fiscal 2006.

*Costs of Services.* Costs of services increased \$10.2 million, or 15.2%, to \$77.2 million for the third quarter of fiscal 2007 from \$67.0 million for the third quarter of fiscal 2006. The increase was due mainly to an increase in compensation expense for our employee consultants of \$5.7 million due primarily to an increase in the average number of employee consultants. Our average number of employee consultants increased due to continued recruiting and hiring efforts. In addition, reimbursable expenses increased \$4.4 million, or 35.4%, to \$17.0 million in the third quarter of fiscal 2007 from \$12.6 million in the third quarter of fiscal 2006. As a percentage of revenues, costs of services decreased to 62.1% for the third quarter of fiscal 2007 from 62.6% for the third quarter of fiscal 2006. The 0.5% decrease as a percentage of revenues was primarily due to a 2.5% decrease in compensation expense and related fringe costs for our employee consultants, offset by a 1.9% increase as a percentage of revenues in client reimbursable expenses.

Prior to the first quarter of fiscal 2007, we classified our internal information technology group's labor costs as an element of "cost of services". In recent years, the information technology group gradually became less involved in client projects and more focused on internal systems. Accordingly, we recorded these costs that are not billable to clients to "selling, general and administrative expenses" in all periods presented. The effect of this reclassification was to increase the third quarter of fiscal 2006 gross margin by \$1.2 million. For the third quarter of fiscal 2007, the information technology group

expenses totaled \$1.4 million. This classification has no effect on income from operations or net income.

*Selling, General, and Administrative Expenses.* Selling, general, and administrative expenses increased by \$7.1 million, or 28.6%, to \$32.1 million for the third quarter of fiscal 2007 from \$25.0 million for the third quarter of fiscal 2006. The increase is primarily due to increases in commissions to non-employee experts of \$1.9 million. In addition, the increases in rent expense of \$1.8 million, compensation expense of \$1.3 million, and travel expenses of \$1.0 million are the result of increased spending in corporate marketing, business development, staff training, and recruiting to support our revenue growth targets in the future. As a percentage of revenues, selling, general, and administrative expenses increased to 25.8% for the third quarter of fiscal 2007 from 23.4% for the third quarter of fiscal 2006. The 2.5% increase as a percentage of revenues, was primarily due to increases in commissions to non-employee experts and rent expense.

*Interest Income.* Interest income decreased by \$0.1 million to \$1.5 million for the third quarter of fiscal 2007 from \$1.6 million for the third quarter of fiscal 2006. This decrease was due to lower cash balances as a result of our share repurchase program. During the third quarter of fiscal 2007, we repurchased 915,235 shares for approximately \$43.5 million.

*Interest Expense.* Interest expense was \$1.0 million for the sixteen weeks ended August 31, 2007 and September 1, 2006. Interest expense primarily represents interest incurred on the 2.875%, \$90.0 million convertible debt, and the amortization of debt issuance costs.

*Other Income (Expense).* Other expense increased by \$0.1 million to \$0.2 million for the third quarter of fiscal 2007 from \$0.1 million for the third quarter of fiscal 2006. Other income (expense) consists primarily of foreign currency exchange transaction gains and losses. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies.

*Provision for Income Taxes.* The provision for income taxes was \$6.5 million for the third quarter of fiscal 2007, an increase of \$0.3 million from the third quarter of fiscal 2006. Our effective income tax rate increased to 42.6% for the third quarter of fiscal 2007 from 40.3% for the third quarter of fiscal 2006. The higher effective tax rate during the third quarter of fiscal 2007 was due primarily to a greater percentage of profits in higher rate jurisdictions this year, as compared to the same quarter last year.

*Equity Method Investment Gain (Loss), Net of Tax.* Starting in the third quarter of fiscal 2006, we began accounting for our investment in NeuCo under the equity method of accounting. Prior to this event, we consolidated NeuCo's financial results. We record our share in the income or losses of NeuCo as equity method investment gain (loss) in the statements of income. The equity method investment loss decreased by \$0.3 million to \$0.2 million for the third quarter of fiscal 2007 from \$0.5 million for the third quarter of fiscal 2006.

*Net Income.* Net income decreased by \$0.1 million, or 1.5%, to \$8.6 million for the third quarter of fiscal 2007 from \$8.7 million for the third quarter of fiscal 2006. The decrease in net income is primarily related to an increase in selling, general and administrative expenses during the quarter. Diluted net income per share increased 1.4% to \$0.72 per share for the third quarter of fiscal 2007 from \$0.71 per share for the third quarter of fiscal 2006. Diluted net income per share increased because diluted weighted average shares outstanding decreased by approximately 297,000 shares to approximately 11,955,000 shares for the third quarter of fiscal 2007 from approximately 12,252,000 shares for the third quarter of fiscal 2006. The decrease in diluted weighted average shares outstanding for fiscal 2007 is primarily a result of repurchases of common stock under our share repurchase programs, offset in part by an increase in common stock equivalents from shares underlying our convertible debt.



**Results of Operations Forty Weeks Ended August 31, 2007 Compared to Forty Weeks Ended September 1, 2006**

*Revenues.* Revenues increased \$32.4 million, or 12.3%, to \$295.9 million for the forty weeks ended August 31, 2007 from \$263.6 million for the forty weeks ended September 1, 2006. The increase in revenues is due primarily to an increased demand for our services in our chemicals and petroleum practice, as well as the BBG acquisition, which occurred at the beginning of the third quarter of fiscal 2006, and to a lesser extent an increase in client reimbursable expenses. The growth in revenue was partially offset by the deconsolidation of NeuCo, which occurred at the beginning of the third quarter of fiscal 2006. Our business consulting revenues grew more than 25% from the forty weeks ended September 1, 2006, which was due primarily to our chemicals and petroleum, and energy and environment practices, offset partially by a decrease in our pharmaceuticals practice. Our chemicals and petroleum practice grew nearly 75%, due to an increase in demand for our services, particularly in the Middle East, and the continued expansion of our London-based operations. Our energy and environment practice increased approximately 15% from the forty weeks ended September 1, 2006, due primarily to continued strength in projects related to environmental, energy, and climate issues. Our pharmaceuticals practice decreased nearly 35% from the forty weeks ended September 1, 2006, due primarily to a decrease in demand for our services related to two large client engagements. Our economic litigation revenues grew nearly 10% from the forty weeks ended September 1, 2006, which was due to an increase in revenues primarily in our transfer pricing practice area, which benefited from the BBG acquisition. Our competition practice grew by nearly 5% during the forty weeks ended August 31, 2007 as compared to the forty weeks ended September 1, 2006, and continues to be our largest practice in terms of revenue. Our intellectual property practice decreased approximately 5% from the forty weeks ended September 1, 2006 as the result of project delays. Our finance revenues grew nearly 10% during the forty weeks ended August 31, 2007 as compared to the forty weeks ended September 1, 2006. Overall, revenues outside of North America represented approximately 27% of revenues for the forty weeks ended August 31, 2007, compared with 23% of revenues for the forty weeks ended September 1, 2006. The growth in revenue in our international offices is primarily due to an increase in demand in our chemicals and petroleum practice, largely in the Middle East.

The total number of employee consultants increased to 767 at the end of the third quarter of fiscal 2007 from 723 at the end of the third quarter of fiscal 2006, which is primarily due to continued hiring and recruiting efforts. Increased billing rates for our employee consultants, which were phased in at the beginning of the first quarter of fiscal 2007, also contributed to our revenue growth. Utilization was 76% for the forty weeks ended August 31, 2007 compared with 78% for the forty weeks ended September 1, 2006. Revenues derived from fixed-price engagements increased to 5.9% of revenues for the forty weeks ended August 31, 2007 compared with 5.1% for the forty weeks ended September 1, 2006.

*Costs of Services.* Costs of services increased \$21.5 million, or 13.2%, to \$185.1 million for the forty weeks ended August 31, 2007 from \$163.6 million for the forty weeks ended September 1, 2006. The increase was due mainly to an increase in compensation expense for our employee consultants of \$16.1 million, excluding NeuCo, attributable primarily to an increase in the average number of employee consultants. Our average number of employee consultants increased because of the BBG acquisition, as well as continued recruiting and hiring efforts. Excluding NeuCo, reimbursable expenses increased \$6.7 million, or 22.2%, to \$36.8 million for the forty weeks ended August 31, 2007 from \$30.1 million for the forty weeks ended September 1, 2006. These increases were partially offset by the effect of the deconsolidation of NeuCo. As a percentage of revenues, cost of services increased to 62.5% for the forty weeks ended August 31, 2007 from 62.1% for the forty weeks ended September 1, 2006. Of the 0.5% increase as a percentage of revenues, approximately 1.0% was due primarily to the increase in reimbursable expenses, which increased at a greater rate than revenues, which is partially offset by approximately 0.5% due to the effect of the deconsolidation of NeuCo.

Prior to the first quarter of fiscal 2007, we classified our internal information technology group's labor costs as an element of "cost of services". In recent years, the information technology group gradually became less involved in client projects and more focused on internal systems. Accordingly, we recorded these costs that are not billable to clients to "selling, general and administrative expenses" in all periods presented. The effect of this reclassification was to increase the forty weeks ended September 1, 2006 gross margin by \$3.0 million. For the forty weeks ended August 31, 2007, the information technology group expenses totaled \$3.5 million. This classification has no effect on income from operations or net income.

*Selling, General, and Administrative Expenses.* Selling, general, and administrative expenses increased by \$10.4 million, or 16.0%, to \$75.4 million for the forty weeks ended August 31, 2007 from \$64.9 million for the forty weeks ended September 1, 2006. Excluding NeuCo, the increase is largely due to the increases in commissions to non-employee experts of \$3.4 million. In addition, the increases in rent expense of \$3.1 million, travel expenses of \$1.8 million, compensation expense of \$1.5 million, and recruiting fees of \$1.4 million are the result of increased spending in corporate marketing, business development, staff training, and recruiting to support our revenue growth targets in the future. These increases were partially offset by a decrease due to the effect of the deconsolidation of NeuCo. As a percentage of revenues, selling, general, and administrative expenses increased to 25.5% for the forty weeks ended August 31, 2007 from 24.6% for the forty weeks ended September 1, 2006. This increase is due primarily to increases in commissions to non-employee experts and rent expense, offset partially by the effect of the deconsolidation of NeuCo.

*Interest Income.* Interest income increased by \$0.7 million to \$4.5 million for the forty weeks ended August 31, 2007 from \$3.8 million for the forty weeks ended September 1, 2006. This increase was mainly due to higher average interest rates. Our weighted average interest rate yield for the forty weeks ended August 31, 2007 on our average cash and cash equivalent balances was approximately 5.4% annualized compared with approximately 4.4% annualized for the forty weeks ended September 1, 2006.

*Interest Expense.* Interest expense decreased by \$32,000 to \$2.5 million for the forty weeks ended August 31, 2007 from \$2.6 million for the forty weeks ended September 1, 2006. Interest expense primarily represents interest incurred on the 2.875%, \$90 million convertible debt, and the amortization of debt issuance costs.

*Other Income (Expense).* Other expense increased by \$0.2 million to \$0.5 million for the forty weeks ended August 31, 2007 from \$0.3 million for the forty weeks ended September 1, 2006. Other expense consists primarily of foreign currency exchange transaction gains and losses. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies.

*Provision for Income Taxes.* The provision for income taxes was \$14.2 million for the forty weeks ended August 31, 2007, a decrease of \$0.4 million from the forty weeks ended September 1, 2006. Our effective income tax rate decreased to 38.3% for the first forty weeks of fiscal 2007 from 40.4% for the first forty weeks of fiscal 2006. The lower effective tax rate during the first forty weeks of fiscal 2007 was primarily due to the signing of an advance pricing agreement we entered into with the Internal Revenue Service on May 11, 2007, in connection with intercompany transfer pricing arrangements beginning in fiscal 2004. As a result of the agreement, we reduced our income tax contingency reserve, resulting in an income tax benefit of \$1.8 million. In addition, the lower effective tax rate was due to a lower amount of nondeductible executive officer compensation disallowed under Section 162(m) of the Internal Revenue Code and a lower amount of nondeductible share-based compensation expense than in the prior year. These decreases to the effective tax rate were offset by approximately \$0.4 million relating to operating losses in foreign locations for which we could not realize any tax benefit.

*Minority Interest.* Previously, allocations of the minority share of NeuCo's net income resulted in deductions to our net income, while allocations of the minority share of NeuCo's net loss resulted in additions to our net income. Beginning in the third quarter of fiscal 2006, as more fully described in Note 5 to the condensed consolidated financials statements, we no longer consolidate NeuCo in our financials statements. Therefore, we no longer record minority interest. Minority interest in the results of operations of NeuCo allocable to its other owners was a net loss of \$141,000 for the forty weeks ended September 1, 2006.

*Equity Method Investment Gain (Loss), Net of Tax.* Starting in the third quarter of fiscal 2006, we began accounting for our investment in NeuCo under the equity method of accounting. Prior to this event, we consolidated NeuCo's financial results. We record our share in the income or losses of NeuCo as equity method investment gain (loss) in the statements of income. The equity method investment loss was \$0.5 million for the forty weeks ended August 31, 2007 and September 1, 2006.

*Net Income.* Net income increased by \$1.2 million, or 5.7%, to \$22.3 million for the forty weeks ended August 31, 2007 from \$21.1 million for the forty weeks ended September 1, 2006. Net income as a percentage of revenue decreased to 7.5% for the forty weeks ended August 31, 2007 from 8.0% for the forty weeks ended September 1, 2006, primarily as a result of increased selling, general and administrative expenses during the forty weeks ended August 31, 2007. Diluted net income per share increased 4.6% to \$1.81 per share for the forty weeks ended August 31, 2007 from \$1.73 per share for the forty weeks ended September 1, 2006. Net income increased at a greater rate than diluted net income per share because diluted weighted average shares outstanding increased approximately 115,000 shares to approximately 12,322,000 shares for the forty weeks ended August 31, 2007 from approximately 12,207,000 shares for the forty weeks ended September 1, 2006. The increase in diluted weighted average shares outstanding for the forty weeks ended August 31, 2007 is primarily due to an increase in common stock equivalents from shares underlying our convertible debt, offset by repurchases of common stock under our share repurchase programs.

## Liquidity and Capital Resources

*General.* In the forty weeks ended August 31, 2007, we had a net decrease in cash and cash equivalents of \$47.6 million. We completed the quarter with cash and cash equivalents of \$84.0 million, and working capital (defined as current assets less current liabilities) of \$140.4 million.

We believe that current cash balances, cash generated from operations, 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 and Uses of Cash in the forty weeks ended August 31, 2007.* During the first forty weeks of fiscal 2007, net cash provided by operations was \$12.2 million. The sources of cash in operations include net income of \$22.3 million, which included depreciation and amortization expense of \$7.7 million, a decrease in deferred income taxes of \$5.7 million, and share-based compensation expense of \$4.1 million. The sources of cash in operations were offset by uses of cash including decreases in accounts payable, accrued expenses, and other liabilities of \$14.6 million and increases in unbilled services of \$5.7 million, prepaid expenses and other assets of \$4.2 million, and accounts receivable of \$3.1 million.

We used \$18.1 million of net cash from investing activities for the first forty weeks of fiscal 2007, which included \$8.7 million for capital expenditures, \$7.1 million for the payment of additional consideration relating to acquisitions, and \$2.4 million for payments on notes receivables.

We used \$41.7 million of cash from financing activities for the first forty weeks of fiscal 2007. Cash used in financing activities was primarily used to repurchase 1,172,286 shares of our common stock for approximately \$56.7 million in cash. In June 2007, we announced that our Board of Directors

authorized a multi-year share repurchase program of up to a total of 1,500,000 shares of our common stock, as management believes our shares are currently undervalued. This is in addition to our prior share repurchase program of 500,000 shares that was announced in July 2006, the primary purpose of which was to offset the dilutive impact of stock options and restricted share grants that have been or may be granted to employees, independent directors, and non-employee consultants. We have now repurchased all shares authorized by the 500,000 share repurchase program and 915,235 of the shares authorized by the 1,500,000 share repurchase program. The common stock repurchases were partially offset by proceeds from the exercise of stock options of \$10.9 million, \$2.3 million from excess tax benefits on share-based compensation pursuant to SFAS No. 123R, and \$2.2 million from collections on receivables from shareholders.

*Private Placement of Convertible Debt.* In 2004, we completed a private placement of \$90.0 million of 2.875% convertible senior subordinated debentures due 2034. 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.

As a result of our election on December 14, 2004, we must settle the conversion of the debentures, as follows: (i) \$1,000 in cash per \$1,000 principal amount of debentures converted; and (ii) in cash or shares of our common stock (at our further election, except for cash in lieu of fractional shares), any conversion obligation that exceeds the principal amount of the debentures converted.

Pursuant to the terms of the indenture governing the debentures, since the closing stock price did not equal or exceed the \$50 per share contingent conversion trigger price for 20 out of 30 consecutive trading days ended on August 31, 2007, the market price conversion trigger was not satisfied and holders of the debentures are not able to exercise their right to convert the bonds as of the first trading day of the fourth quarter of fiscal 2007. This test is repeated each fiscal quarter. We believe that in the event the contingent conversion trigger price is met, it is unlikely that a significant percentage of bondholders will exercise their right to convert because the debentures have traded at a premium over their conversion value. Since the holders of the debentures are not able to exercise their right to convert the bonds as of August 31, 2007, we have classified the \$90.0 million convertible debt as long-term debt as of August 31, 2007, in the accompanying condensed consolidated balance sheet. Our revolving line of credit to borrow up to \$90.0 million expires on April 30, 2010 and it is our intention to renew or replace the line of credit, as desirable and available, which would allow us to continue to classify our convertible debentures as long-term debt, rather than short-term in future years. In addition, the line of credit gives us additional flexibility to meet any unforeseen financial requirements.

As early as June 15, 2011 or upon certain specified fundamental changes, we may be required to repurchase all or any portion of the debentures, at the option of each holder, which, in the event of a fundamental change involving a change of control of our firm, may include the payment of a make-whole premium.

*Borrowings under the Revolving Line of Credit.* We are party to a senior loan agreement with our bank for a \$90.0 million revolving line of credit with a maturity date of April 30, 2010. 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. The available line of credit is reduced, as necessary, to account for certain letters of credit outstanding. The \$90.0 million credit facility allows us to mitigate the potential liquidity risk, and to provide funding if required, in the event of conversion by the debenture holders. Funds available under the expanded facility will allow us to continue to classify up to \$90.0 million of our convertible debentures as long-term debt, rather than short-term, and will give us additional flexibility to meet any unforeseen financial requirements. There were no amounts outstanding under this line of credit as of August 31, 2007, and the line of credit then available was \$88.1 million, reduced for letters of credit outstanding.

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. Interest is payable monthly. A commitment fee of 0.165% is payable on the unused portion of the credit facility. Borrowings under the credit facility are secured by 100% of the stock of certain of our U.S. subsidiaries and by 65% of the stock of certain of our foreign subsidiaries, amounting to net assets of approximately \$88.5 million as of August 31, 2007.

*Debt Restrictions.* Under our senior loan agreement, we must comply with various financial and non-financial covenants. The financial covenants require us to maintain a minimum consolidated working capital of \$25.0 million and require us to comply with a consolidated total debt to EBITDA ratio of not more than 3.5 to 1.0 and a consolidated senior debt to EBITDA ratio of not more than 2.0 to 1.0. Compliance with these financial covenants is tested on a fiscal quarterly basis. In March 2005, we amended the definition of "current liabilities" included in the working capital covenant of the senior credit agreement to exclude any convertible subordinated debt for which we have not been notified of the intention to convert. The non-financial covenants of the senior credit agreement place certain restrictions on our ability to incur additional indebtedness, 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.

As of August 31, 2007, we were in compliance with our covenants under the senior credit agreement.

*Other Matters.* 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, or a combination of cash and our common stock, 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 our bank, and the overall credit and equity market environments.

In June 2007, we announced that our Board of Directors authorized a share repurchase program of up to a total of 1,500,000 shares of our common stock. We will finance the repurchase program with available cash and cash from future operations. We may repurchase shares in open market purchases or in privately negotiated transactions in accordance with applicable insider trading and other securities laws and regulations. To date, we have repurchased 915,235 shares under this plan for approximately \$43.5 million. We expect to continue to repurchase shares under the share repurchase program.

*Contingencies.* In connection with the acquisitions we completed in fiscal 2006, fiscal 2005, and fiscal 2004, we agreed to pay additional consideration, for up to five years following the transactions, if specific performance targets are met. These payments are generally required to be made in cash, and in some cases are to be paid in shares of our common stock. During the third quarter of fiscal 2007, we recorded an additional \$6.6 million of purchase price related to these acquisitions, which will be paid in cash and common stock during fiscal 2007 or fiscal 2008. We believe that we will have sufficient funds to satisfy any additional obligations related to the contingent consideration. We expect to fund these contingent cash payments, if any, from existing cash resources, cash generated from operations, or financing transactions.

*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**

Part II, Item 1A of this quarterly report sets forth risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this quarterly report. If any of these risks, or any risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition, and results of operations could be adversely affected.

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

#### *Foreign Exchange Risk*

The majority of our operations are based in the U.S., and accordingly, the majority of our transactions are denominated in U.S. dollars. However, we have foreign-based operations where transactions are denominated in foreign currencies and are subject to market risk with respect to fluctuations in the relative value of foreign currencies. Our primary foreign currency exposures relate to our short-term intercompany balances with our foreign subsidiaries and accounts receivable and cash valued in the United Kingdom in U.S. dollars. Our primary foreign subsidiaries have functional currencies denominated in the British pound, Australian dollar, and Euro, and foreign denominated assets and liabilities are remeasured each reporting period with any exchange gains and losses recorded in our consolidated statements of operations. We manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies. Based on currency exposures existing at August 31, 2007, a hypothetical 10% movement in foreign exchange rates would not expose us to significant gains or losses in earnings or cash flows. We continue to manage our foreign currency exchange exposure through frequent settling of intercompany account balances and by self-hedging movements in exchange rates between the value of the dollar and foreign currencies. In addition, we may use derivative instruments to manage the risk of exchange rate fluctuations. However, at August 31, 2007, we had no outstanding derivative instruments. We do not use derivative instruments for trading or speculative purposes.

#### *Interest Rate Risk*

We maintain an investment portfolio consisting mainly of investment grade money market funds, corporate obligations and government obligations with a weighted average maturity of less than one year. These held-to-maturity securities are subject to interest rate risk. However, a hypothetical change in the interest rate of 10% would not have a material impact to the fair values of these securities at August 31, 2007 primarily due to their short maturity and our intent to hold the securities to maturity. There have been no significant changes since November 25, 2006.

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

#### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we 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 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.

*Evaluation of Changes in Internal Control over Financial Reporting*

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we have determined that, during the third quarter of fiscal 2007, 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.

*Important Considerations*

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness of future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting 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.

## **PART II. OTHER INFORMATION**

### **ITEM 1. Legal Proceedings**

On March 13, 2007, an Administrative Law Judge in the matter entitled Enron Power Marketing, Inc. and Enron Energy Services, Inc. [Docket No. EL03-180-000], et al. submitted before the Federal Energy Regulatory Commission ("FERC") a Certification of Question Regarding Suspension of Witness and Attorneys Pursuant to Rule 2102. The Administrative Law Judge's order recommended a hearing before FERC to determine if Dr. Jan Acton, a CRA employee, CRA, and unnamed "Enron Attorneys" should be suspended from appearing and practicing before FERC based on certain data production Enron made to FERC in August 2001. CRA employees assisted Enron attorneys with the data production in 2001.

In April 2007, FERC issued an order directing the issue to Chief Administrative Law Judge Curtis Wagner for further proceedings. The Chief Administrative Law Judge recently concluded that there was absolutely no evidence that CRA or its employees engaged in any unethical or improper professional conduct in connection with the matter and recommended that the FERC terminate any further proceedings. On July 31, 2007, the FERC issued an Order Affirming the Initial Decision of the Chief Administrative Law Judge Curtis Wagner.

### **ITEM 1A. Risk Factors**

Our operations are subject to a number of risks. You should carefully read and consider the following risk factors, together with all other information in this report, in evaluating our business. If any of these risks, or any risks not presently known to us or that we currently believe are not significant, develops into an actual event, then our business, financial condition, and results of operations could be adversely affected. If that happens, the market price of our common stock could decline, and you may lose all or part of your investment.

#### ***We depend upon 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 non-compete agreements with the majority 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.

#### ***We depend on our non-employee experts***

We depend on our relationships with our exclusive non-employee experts. In fiscal 2006 and fiscal 2005, six of our exclusive non-employee experts generated engagements that accounted for approximately 7% and 13% of our revenues in those years, respectively, excluding fees charged to the engagement by the non-employee expert and reimbursable expenses. We believe that these 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 experts. Most of these 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 31, 2007, we had restrictive covenant contracts, which could include non-competition agreements, with 48 of our non-employee 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 non-employee experts who have reputations as leading experts in their fields. We may be unable to establish relationships with any additional non-employee experts. In addition, any relationships that we do establish may not help us meet our objectives or generate the revenues or earnings that we anticipate.

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

Any failure on our part to manage growth successfully could adversely affect our revenues and results of operations. Over the last several years, we have continued to open offices in new geographic areas, including foreign locations, and to expand our employee base as a result of internal growth and acquisitions. We expect that this trend will continue over the long term. Opening and managing new offices often requires extensive management supervision and increases our overall selling, general, and administrative expenses. Expansion creates new and increased management, consulting, and training responsibilities for our employee consultants. Expansion also increases the demands on our internal systems, procedures, and controls, and on our managerial, administrative, financial, marketing, and other resources. We depend heavily upon the managerial, operational, and administrative skills of our officers, particularly James C. Burrows, our President and Chief Executive Officer, to manage our expansion. New responsibilities and demands may adversely affect the overall quality of our work.

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

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

***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.

***Regulatory, legislative changes, and market conditions affecting our clients, practice areas, competitors, or staff could have an impact on our business***

Many of our clients are in highly regulated industries. Regulatory and legislative changes in these industries could impact the market for our service offerings and could render our current service offerings obsolete, reduce the demand for our services, or impact the competition for consulting and expert services. For example, potential changes in the patent laws could have a significant impact on

our intellectual property practice. Similarly, overall market conditions in the industries we service could also impact the market for our services. For example, a significant decrease in the price of oil could reduce the number and scope of our engagements in various practice areas.

***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 significant revenues from engagements relating to enforcement of U.S. 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. An economic slowdown may have an adverse effect on mergers and acquisitions activity, which would reduce the number and scope of our engagements in this practice area. Any such downturn would adversely affect our revenues and results of operations.

***We derive our revenues from a limited number of large engagements***

We derive a 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 due to the specific engagement nature of our practice, a major client in one year may not hire us in the following year.

***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 adversely affect our margins and results of operations.

***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 adversely affect our results of operations. If we acquire a business, we may be unable to manage it profitably or successfully integrate its operations with our own. Moreover, we may be unable to realize the financial, operational, and other benefits we anticipate from these acquisitions or any other acquisition. Many potential acquisition targets do not meet our criteria, and for those that do, we face significant competition for these acquisitions from our direct competitors, private equity funds, and other enterprises. 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, including convertible debt 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;

increased selling, general and administrative expenses associated with managing a larger and more global organization;

longer sales cycles;

restrictions on the repatriation of earnings;

potentially adverse tax consequences, such as trapped foreign losses;

differences in the legal and regulatory environment in foreign jurisdictions, as well as U.S. laws and regulations related to our foreign operations;

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. At times, the ongoing terrorist activity and military and other 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 had previously operated with little or no debt, and our previous payments of interest had not been material. The interest we are required to pay on these debentures reduces our net income each year and will continue to do so 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 cash, shares of common stock, 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 the debentures may require us to repurchase their debentures for cash. On December 14, 2004, we irrevocably elected to settle with cash 100% of the principal amount of the debentures upon conversion thereof, and holders of the debentures may convert them if our stock price exceeds \$50 per share for at least 20 out of 30 consecutive trading days ending on the last trading day of the preceding fiscal quarter. Because the closing price of our common stock did not equal or exceed the \$50 per share contingent conversion trigger price for 20 out of the 30 consecutive trading days ended on August 31, 2007, holders of the debentures are not able to exercise their right to convert the bonds during our fourth fiscal quarter ending November 24, 2007. This test is repeated each fiscal quarter. To date, no conversions have occurred. On June 20, 2005, we amended our loan agreement with our bank to increase the existing line of credit from \$40.0 million to \$90.0 million to mitigate the potential liquidity risk, and to provide funding if required, in the event of conversion by the debenture holders. We intend to use the amounts available under our bank line of credit, in the event debenture holders exercise their rights to convert. 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.

***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 account receivable could adversely affect 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 or our guidance for future periods 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 our 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 related to our investment in NeuCo, Inc., including charges for other-than-temporary declines in the fair value of our investment in NeuCo;

fluctuations in our provision for income taxes due to changes in income arising in various tax jurisdictions, valuation allowances, non-deductible expenses, and changes in estimates for tax contingencies;

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.

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

We derive a 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.

***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 acquisitions have 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 non-employee 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, including work before and on behalf of government agencies, any factor that diminishes our reputation or the reputations of any of our employee consultants or non-employee experts could make it substantially more difficult for us to compete successfully for both new engagements and qualified consultants.

***Competition from other economic, litigation support, and business consulting firms could hurt our business***

The market for economic, litigation support, 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, regulatory, and financial consulting market, we compete primarily with other economic, litigation support, 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, to finance acquisitions, and to 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.

***We could incur substantial costs protecting our proprietary rights from infringement or defending against a claim of infringement***

As a professional services organization, we rely on non-competition and non-solicitation agreements with many of our employees and non-employee experts to protect our proprietary business interests. These agreements, however, may offer us only limited protection and may not be enforceable in every jurisdiction. In addition, we may incur substantial costs trying to enforce these agreements.

Our services may involve the development of custom business processes or solutions for specific clients. In some cases, the clients retain ownership or impose restrictions on our ability to use the business processes or solutions developed from these projects. Issues relating to the ownership of business processes or solutions can be complicated, and disputes could arise that affect our ability to resell or reuse business processes or solutions we develop for clients.

In recent years, there has been significant litigation in the U.S. involving patents and other intellectual property rights. We could incur substantial costs in prosecuting or defending any intellectual property litigation, which could adversely affect our operating results and financial condition.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to obtain and use information that we regard as proprietary. Litigation may be necessary in the future to enforce our proprietary rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Any such resulting litigation could result in substantial costs and diversion of resources and could adversely affect our business, operating results and financial condition. Any failure by us to protect our proprietary rights could adversely affect our business, operating results and financial condition.

***Our reported earnings per share may be more volatile because of the accounting standards, rules, and regulations as they relate to our convertible senior subordinated debentures***

Holders of our 2.875% convertible senior subordinated debentures due 2034 may convert the debentures only under certain circumstances, including certain stock price-related conversion contingencies. As further described in Note 10 to our condensed consolidated financial statements, we determine the effect of the debentures on earnings per share under the treasury stock method of accounting. The treasury stock method of accounting allows us to report dilution only when our average stock price per share for the reporting period exceeds the \$40 conversion price and only to the extent of the additional shares we may be required to issue in the event our conversion obligation exceeds the principal amount of the debentures converted. Accordingly, volatility in our stock price could cause volatility in our reported diluted earnings per share.

The FASB has issued a proposed Staff Position that, if adopted, would apply to any convertible debt instrument that may be settled in whole or in part with cash upon conversion, which would include our 2.875% debentures. We would be required to adopt the proposal as of the beginning of our fiscal 2009, with retrospective application to financial statements for periods prior to the date of adoption. The FASB proposal would require us to allocate a portion of the proceeds on the debt to the embedded conversion feature, thereby creating a discount on the value stated of the debt. This discount would subsequently be amortized as interest expense over the term of the instrument resulting in an increase to our reported interest expense. This could materially impact our results of operations and earnings per share. We do not anticipate that the potential adoption of the proposal would affect our cash flows.

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

The market price of our common stock has fluctuated widely and may continue to do so. For example, from September 1, 2006, to August 31, 2007, the trading price of our common stock ranged from a high of \$55.00 per share to a low of \$43.74 per share. Many factors could cause the market price of our common stock to rise and fall. Some of these factors are:

variations in our quarterly results of operations;

the hiring or departure of key personnel or non-employee 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 or methods, such as SFAS No. 123R and FASB Interpretation No. 47;



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 often experiences 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, shareholders 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 amended and restated articles of organization and amended and restated 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 our shareholders and debenture holders may find attractive. These provisions may also discourage proxy contests and make it more difficult for our shareholders 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 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) On July 10, 2007, we issued an aggregate of 4,647 shares of our common stock to the former shareholders of Lee & Allen Consulting Limited, or Lee & Allen, as a result of the achievement of certain milestones related to our acquisition of Lee & Allen. 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.

On July 23, 2007, we issued an aggregate of 8,041 shares of our common stock to the former shareholders of Economics of Competition and Litigation Limited, or ECL, as a result of the achievement of certain milestones related to our acquisition of ECL. 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.

(b) Not applicable.

(c) The following table provides information about our repurchases of shares of our common stock during the sixteen weeks ended August 31, 2007. 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)(2)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
May 12, 2007, to June 8, 2007				
June 9, 2007, to July 6, 2007	534,068(2)	\$ 46.84	534,068	965,932(2)
July 7, 2007, to August 3, 2007	381,167(2)	\$ 48.60	381,167	584,765(2)
August 4, 2007, to August 31, 2007				

- (1) We are a party to a stock restriction agreement with certain shareholders 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 2007 annual meeting of shareholders under the heading "Transactions with Related Parties Stock restriction agreement."
- (2) On June 14, 2007, we issued a press release announcing that our board of directors has approved the repurchase from time to time of up to 1,500,000 shares of our common stock. During the period covered by this report, we purchased 915,235 shares authorized under this plan.

**ITEM 3. Defaults Upon Senior Securities**

None.

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

None.

**ITEM 5. Other Information**

None.

**ITEM 6. Exhibits**

Item No.	Description
3.2	Amended and Restated By-Laws, as amended (incorporated by reference to Exhibit 3.2 to our current report on Form 8-K filed on June 20, 2007)
10.1	Fifth Amendment to Loan Agreement, dated as of May 16, 2007, by and between CRA International, Inc. and Citizens Bank of Massachusetts (incorporated by reference to Exhibit 10.1 to our current report on Form 8-K filed on May 22, 2007)
10.2	Third Amendment to Revolving Note, dated as of May 16, 2007, by and between CRA International, Inc. and Citizens Bank of Massachusetts (incorporated by reference to Exhibit 10.2 to our current report on Form 8-K filed on May 22, 2007)
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



**EXHIBIT INDEX**

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