

CHARLES RIVER ASSOCIATES INC
Form 10-Q/A
July 14, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2
to

FORM 10-Q/A

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

For the quarterly period ended May 14, 2004

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission file number: 000-24049

Charles River Associates Incorporated

(Exact name of registrant as specified in its charter)

Massachusetts

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

As of June 24, 2004 CRA had outstanding 9,665,542 shares of common stock.

EXPLANATORY NOTE

We are amending Item 1 of Part I of our quarterly report on Form 10-Q for the twelve weeks ended May 14, 2004 to correct certain calculation errors reflected in the unaudited pro forma financial information relating to our recent acquisition of InteCap, Inc., included in note 14 of the footnotes to our financial statements.

In Item 2 of Part I, in the "Liquidity and Capital Resources" portion of our "Management's Discussion and Analysis of Financial Position and Results of Operations," we are amending the amounts reported for net cash provided by operating activities and the decrease in accounts payable, accrued expenses, and other liabilities to conform to the amounts presented on our consolidated statements of cash flows included in Item 1 of Part I. We are also amending the discussion of selling, general and administrative expenses for both the twelve and twenty-four weeks ended May 14, 2004 in the "Results of Operations" portion of our "Management's Discussion and Analysis of Financial Position and Results of Operations" to reallocate approximately \$0.1 million of expense to overall compensation to our administrative staff. This amount was previously described as other selling, general and administrative expense.

In Item 2 of Part II, we are correcting a typographical error in column (b) of the table included in that item. We are also amending Item 6 of Part II to include the certifications filed with this amendment.

Charles River Associates Incorporated

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PART I. FINANCIAL INFORMATION**ITEM 1. Financial Statements**

Charles River Associates Incorporated
Consolidated Statements of Income (unaudited)

(In thousands, except per share data)

	Twelve Weeks Ended		Twenty-four Weeks Ended	
	May 14, 2004	May 16, 2003	May 14, 2004	May 16, 2003
Revenues	\$ 45,694	\$ 40,245	\$ 84,195	\$ 75,030
Costs of services	26,585	25,261	48,545	46,959
Gross profit	19,109	14,984	35,650	28,071
Selling, general and administrative expenses	12,332	10,349	23,971	19,610
Income from operations	6,777	4,635	11,679	8,461
Interest and other income, net	448	193	247	187
Income before provision for income taxes and minority interest	7,225	4,828	11,926	8,648
Provision for income taxes	(3,107)	(2,017)	(5,128)	(3,589)
Income before minority interest	4,118	2,811	6,798	5,059
Minority interest	(90)	11	(197)	(30)
Net income	\$ 4,028	\$ 2,822	\$ 6,601	\$ 5,029
Net income per share:				
Basic	\$ 0.40	\$ 0.31	\$ 0.65	\$ 0.56
Diluted	\$ 0.38	\$ 0.30	\$ 0.62	\$ 0.54
Weighted average number of shares outstanding:				
Basic	10,180	9,019	10,181	9,015
Diluted	10,679	9,343	10,706	9,260

See accompanying notes.

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

	May 14, 2004	November 29, 2003
	<u> </u>	<u> </u>
	<i>(unaudited)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,497	\$ 60,497
Short-term investments	51	32
Accounts receivable, net of allowances of \$1,363 in 2004 and \$1,606 in 2003 for doubtful accounts	43,120	31,942
Unbilled services	27,287	17,552
Prepaid expenses and other assets	2,879	3,152
Deferred income taxes	5,536	5,510
	<u> </u>	<u> </u>
Total current assets	100,370	118,685
Property and equipment, net	14,129	12,703
Goodwill	90,468	24,750
Intangible assets, net of accumulated amortization of \$1,585 in 2004 and \$1,366 in 2003	7,438	1,157
Long-term investments	4,434	5,154
Other assets	1,987	1,767
	<u> </u>	<u> </u>
Total assets	\$ 218,826	\$ 164,216
	<u> </u>	<u> </u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 9,859	\$ 9,590
Accrued expenses	25,460	27,508
Deferred revenue and other liabilities	3,482	1,597
Current portion of notes payable to former stockholders	1,034	1,038
	<u> </u>	<u> </u>
Total current liabilities	39,835	39,733
Notes payable to former stockholders, net of current portion	1,571	1,571
Line of credit payable	39,600	
Deferred rent	3,204	1,839
Deferred compensation expense	3,000	
Deferred income taxes	3,887	1,192
Minority interest	2,047	1,850
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized; none issued and outstanding		
Common stock, no par value; 25,000,000 shares authorized; 10,270,218 shares in 2004 and 10,176,777 in 2003 issued and outstanding	74,360	72,792
Notes receivable from stockholders	(4,865)	(4,500)
Deferred compensation	(20)	(40)
Retained earnings	55,247	48,646
Foreign currency translation	960	1,133

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	May 14, 2004	November 29, 2003
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Total stockholders' equity	125,682	118,031
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 218,826	\$ 164,216
	<u> </u>	<u> </u>

See accompanying notes.

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

	Twenty-four Weeks Ended	
	May 14, 2004	May 16, 2003
Operating activities:		
Net income	\$ 6,601	\$ 5,029
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,952	1,825
Deferred rent	499	852
Deferred income taxes	(28)	
Minority interest	197	30
Changes in operating assets and liabilities:		
Accounts receivable	(363)	(5,050)
Unbilled services	(4,921)	(10)
Prepaid expenses and other assets	571	(125)
Accounts payable, accrued expenses, and other liabilities	(4,308)	5,055
Net cash provided by operating activities	200	7,606
Investing activities:		
Purchase of property and equipment	(2,108)	(3,010)
Sale of investments, net	701	506
Acquisition of business, net of cash acquired	(78,470)	
Net cash used in investing activities	(79,877)	(2,504)
Financing activities:		
Payments on notes payable, net		(660)
Collections on receivables from stockholders	69	
Proceeds from line of credit	39,600	
Issuance of common stock upon exercise of stock options	1,131	186
Payment for repurchase of minority interest shares in subsidiary		(300)
Net cash provided by (used in) financing activities	40,800	(774)
Effect of foreign exchange rates on cash and cash equivalents	(123)	128
Net increase (decrease) in cash and cash equivalents	(39,000)	4,456
Cash and cash equivalents at beginning of period	60,497	18,846
Cash and cash equivalents at end of period	\$ 21,497	\$ 23,302
Non-cash financing activities:		
Notes receivable in exchange for shares	\$ 2,865	
Repurchase of shares in exchange for note receivable	\$ 2,431	
Supplemental cash flow information:		
Cash paid for income taxes	\$ 2,217	\$ 3,724

Twenty-four Weeks Ended

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See accompanying notes.

Charles River Associates Incorporated

Notes to Consolidated Financial Statements

(Unaudited)

1. Description of Business

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

2. Unaudited Interim Consolidated Financial Statements and Estimates

The consolidated statements of income for the twelve and twenty-four weeks ended May 14, 2004 and May 16, 2003, the consolidated balance sheet as of May 14, 2004, and the consolidated statements of cash flows for the twenty-four weeks ended May 14, 2004 and May 16, 2003, are unaudited. The November 29, 2003 balance sheet is derived from CRA's audited financial statements included in its Annual Report on Form 10-K as of that date. In the opinion of management, these statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of CRA's consolidated financial position, results of operations, and cash flows.

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

3. Principles of Consolidation

The consolidated financial statements include the accounts of CRA, its wholly owned subsidiaries, and NeuCo, Inc. ("NeuCo"), a company founded by CRA and an affiliate of Commonwealth Energy Systems in June 1997. As of May 14, 2004, CRA's interest in NeuCo is 59.3 percent. In March 2003, NeuCo repurchased and cancelled shares from a minority interest stockholder, which increased CRA's interest in NeuCo to 59.7 percent from 49.7 percent. This transaction has been recorded as an adjustment of capital. The portion of the results of operations of NeuCo allocable to its other owners is shown as "minority interest" on CRA's statement of income, and that amount, along with the capital contributions to NeuCo of its other owners, is shown as "minority interest" on CRA's balance sheet. All significant intercompany accounts have been eliminated.

4. Fiscal Year

CRA's fiscal year ends on the last Saturday in November, and accordingly, its fiscal year will periodically contain 53 weeks rather than 52 weeks. Both fiscal 2004 and 2003 are 52-week years. In a 52-week year, each of CRA's first, second, and fourth quarters includes twelve weeks, and its third quarter includes sixteen weeks. In a 53-week year, the fourth quarter includes thirteen weeks.

5. Revenue Recognition

Revenues from most engagements are recognized as services are provided based upon hours worked and contractually agreed-upon hourly rates, as well as a computer services fee based upon hours worked. Some revenues are derived from fixed-price engagements, for which revenue is recognized on a proportional performance method based on the ratio of costs incurred, substantially all of which are

labor-related, to the total estimated project costs. Losses are provided for at the earliest date by which they are identified. Revenues also include reimbursements, or expenses billed to clients, which include travel and other out-of-pocket expenses, outside consultants, and other reimbursable expenses. These reimbursable expenses included in revenues are as follows (in thousands):

	Twelve Weeks Ended		Twenty-four Weeks Ended	
	May 14, 2004	May 16, 2003	May 14, 2004	May 16, 2003
Reimbursable expenses billed to clients	\$ 6,359	\$ 6,637	\$ 11,407	\$ 11,804

An allowance is provided for any amounts considered uncollectible.

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

6. Cash Equivalents and Investments

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

7. Goodwill and Other Intangible Assets

Goodwill represents the cost in excess of fair market value of net assets of acquired businesses. In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), which revised the accounting for goodwill and other intangible assets. Specifically, goodwill and intangible assets with indefinite lives are no longer subject to amortization, but are monitored annually for impairment, or more frequently if there are indicators of impairment. Any impairment would be measured based upon the fair value of the related asset based on the provisions of SFAS No. 142. If CRA determines through the impairment review process that goodwill has been impaired, it would record the impairment charge in its statement of income. There were no impairment losses related to goodwill due to the application of SFAS No. 142 in fiscal 2003, nor were there any indications of impairment in the twenty-four weeks ended May 14, 2004.

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

8. Impairment of Long-Lived Assets

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

9. Property and Equipment

Property and equipment are recorded at cost. CRA provides for depreciation of equipment using the straight-line method over its estimated useful life, generally three to ten years. Amortization of leasehold improvements is provided using the straight-line method over the shorter of the lease term or the estimated useful life of the leasehold improvements. Expenditures for maintenance and repairs are expensed as incurred. Expenses for renewals and betterments are capitalized.

10. Net Income per Share

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

	Twelve Weeks Ended		Twenty-four Weeks Ended	
	May 14, 2004	May 16, 2003	May 14, 2004	May 16, 2003
Basic weighted average shares outstanding	10,180	9,019	10,181	9,015
Weighted average equivalent shares	499	324	525	245
Diluted weighted average shares outstanding	10,679	9,343	10,706	9,260

11. Stock-Based Compensation

CRA has elected to follow Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its stock-based compensation plans rather than the alternative fair value accounting method provided for under SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), as amended by SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure" (collectively, SFAS No. 148).

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

	Twelve Weeks Ended		Twenty-four Weeks Ended	
	May 14, 2004	May 16, 2003	May 14, 2004	May 16, 2003
Net income as reported	\$ 4,028	\$ 2,822	\$ 6,601	\$ 5,029
Less stock-based compensation expense determined under fair value method for all stock options, net of related income tax benefit	(351)	(494)	(681)	(973)
Net income pro forma	\$ 3,677	\$ 2,328	\$ 5,920	\$ 4,056
Basic net income per share as reported	\$ 0.40	\$ 0.31	\$ 0.65	\$ 0.56
Basic net income per share pro forma	\$ 0.36	\$ 0.26	\$ 0.58	\$ 0.45
Diluted net income per share as reported	\$ 0.38	\$ 0.30	\$ 0.62	\$ 0.54
Diluted net income per share pro forma	\$ 0.34	\$ 0.25	\$ 0.55	\$ 0.44

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

12. Comprehensive Income

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

	Twenty-four Weeks Ended	
	May 14, 2004	May 16, 2003
Net income	\$ 6,601	\$ 5,029
Change in foreign currency translation	(173)	500
Comprehensive income	\$ 6,428	\$ 5,529

13. Foreign Currency Translation

In accordance with SFAS No. 52, "Foreign Currency Translation," balance sheet accounts of CRA's foreign subsidiaries are translated into United States dollars at period-end exchange rates. Operating accounts are translated at average exchange rates for each reporting period. The net gain or loss resulting from the changes in exchange rates during the twenty-four weeks ended May 14, 2004 and May 16, 2003 have been reported in comprehensive income. Transaction gains and losses are recorded in interest and other income (expense), net, in the consolidated statements of income.

14. Business Acquisition

On April 30, 2004, CRA completed its acquisition of InteCap, Inc. ("InteCap"), a leading intellectual property consulting firm in the United States that specializes in economic, financial, and strategic issues related to intellectual property and complex commercial disputes. CRA purchased InteCap from InteCap's institutional investor, GTCR Golder Rauner, LLC, members of InteCap's management, and other shareholders for approximately \$79.3 million (after deducting cash acquired, and adding acquisition costs and transaction fees paid or accrued). CRA funded the purchase price from existing cash resources and borrowings of \$39.6 million under its \$40.0 million line of credit. In connection with the acquisition, certain InteCap employees purchased in aggregate 87,316 shares of common stock in exchange for notes totaling approximately \$2.9 million. The notes mature in June 2007 and bear interest at 1.47% per annum.

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

The following is a preliminary allocation of the purchase price, based on management's estimates. CRA has not yet completed the evaluation and allocation of the purchase price. Fair values will be determined based on internal studies and independent third-party appraisals. CRA will finalize the purchase price allocation after it receives a final appraisal report, completes its internal studies, and receives other relevant information relating to the acquisition. The final purchase price allocation may be significantly different than the preliminary estimate presented below. However, because only two weeks of InteCap's results are included in CRA's results of operations for the twenty-four weeks ended May 14, 2004, the impact of any adjustments to the final purchase price allocation is not expected to be material to CRA's results of operations for this period.

Assets:	
Accounts receivable	\$ 10,860
Unbilled services	4,827
Prepaid expenses and other current assets	248
Property and equipment	998
Intangible assets	6,500
Goodwill	65,718
Other assets	258
	<hr/>
Total assets acquired	\$ 89,409
	<hr/>
Liabilities:	
Accounts payable	\$ 685
Accrued expenses	2,910
Deferred compensation	3,000
Deferred income taxes	2,676
Deferred rent	868
	<hr/>
Total liabilities assumed	10,139
	<hr/>
Net assets acquired	\$ 79,270
	<hr/>

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Intangible assets acquired consist principally of contracts acquired, customer relationships, trademarks and patents and are amortized on a straight-line basis over five years. Goodwill is not expected to be deductible for income tax purposes.

The following unaudited pro forma financial information reflects consolidated results of operations of CRA as if the acquisition of InteCap had taken place on December 1, 2002, the beginning of CRA's 2003 fiscal year. The pro forma adjustments include elimination of transaction-related compensation costs of approximately \$11.8 million, which were incurred by InteCap, additional interest expense related to the line of credit borrowings used to finance the acquisition, a reduction of interest expense for InteCap's debt prior to the acquisition, additional intangible amortization related to the estimated intangible assets acquired, a reduction of InteCap's intangible amortization prior to the acquisition, and the related income tax effects of these adjustments. The pro forma financial information is not necessarily indicative of the results of operations that would have occurred if the InteCap acquisition had been completed on December 1, 2002, nor are they necessarily indicative of future operating results.

	Twelve Weeks Ended		Twenty-four Weeks Ended	
	May 14, 2004	May 16, 2003	May 14, 2004	May 16, 2003
(In thousands, except for per share information)				
Revenues	\$ 58,142	\$ 53,210	\$ 109,724	\$ 102,149
Net income	\$ 4,085	\$ 3,159	\$ 7,175	\$ 4,860
Net income per share:				
Basic	\$ 0.40	\$ 0.35	\$ 0.70	\$ 0.54
Diluted	\$ 0.38	\$ 0.34	\$ 0.67	\$ 0.52
Weighted average number of shares outstanding:				
Basic	10,180	9,019	10,181	9,015
Diluted	10,679	9,343	10,706	9,260

Year-to-year comparability of the above proforma results of operations may not be representative because InteCap's results include bonus expense subject to a following-year retention contingency. Such bonuses, accordingly, were not matched to revenues or accrued in the years for which the bonuses were earned.

15. Accounting Pronouncement

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

ended May 14, 2004. As of May 14, 2004, CRA had no interests in any VIE. Adoption of this interpretation did not have a material impact on CRA's consolidated financial statements.

16. Subsequent Event

On June 21, 2004, CRA completed a private placement of \$75 million of 2.875% convertible senior subordinated debentures due 2034. CRA has also granted the initial purchasers of the debentures an option to purchase, within 13 days from the date of issuance, up to an additional \$15 million principal amount of the debentures. On June 28, 2004, the initial purchasers have given notice to exercise this option. The closing of the issuance of these debentures is subject to customary clos