

BEARINGPOINT INC  
Form 10-Q/A  
October 06, 2003  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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**FORM 10-Q/A**

Amendment No. 1

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For quarterly period ended March 31, 2003.

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

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-31451

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**BEARINGPOINT, INC.**

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of

22-3680505  
(IRS Employer

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incorporation or organization)

Identification No.)

**1676 International Drive, McLean, VA**  
(Address of principal executive office)

**22102**  
(Zip Code)

**(703) 747-3000**

(Registrant's telephone number, including area code)

(Former name, if changed since last report)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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

The number of shares of common stock of the Registrant outstanding as of April 30, 2003 was 191,705,143.

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**BEARINGPOINT, INC.**

**QUARTERLY REPORT ON FORM 10-Q/A**

**FOR THE QUARTER ENDED MARCH 31, 2003**

**INTRODUCTORY NOTE**

Pursuant to Rule 12b-15 of the Rules and Regulations under the Securities Exchange Act of 1934, the following is an amendment on Form 10-Q/A of BearingPoint, Inc. for the quarter ended March 31, 2003. This Amendment is being filed (i) to restate certain amounts (see also Note 2, Restatement, of the Notes to Consolidated Condensed Financial Statements for discussion of significant changes), (ii) to revise disclosures of the Company's Consolidated Condensed Financial Statements for the three months and nine months ended March 31, 2003 and (iii) to amend Item 4, Controls and Procedures, to disclose certain matters identified in connection with the audit of the Company's consolidated financial statements for the year ended June 30, 2003 and to refer to the matter described below regarding Grant Thornton LLP. This filing should be read in conjunction with the Company's amendments on Form 10-Q/A for the quarters ended September 30, 2002 and December 31, 2002. The circumstances necessitating the restatement and their effects on the three and nine months ended March 31, 2003 are more fully described in Note 2, Restatement, of the Notes to Consolidated Condensed Financial Statements. This amendment continues to speak as of the date of the original filing of the Quarterly Report, and the Company has not updated the disclosures contained therein to reflect events that occurred at a later date, except for items relating to the restatement (see Note 2, Restatement, of the Notes to the Consolidated Condensed Financial Statements), disclosure relating to segment reporting (see Note 3, Segment Reporting, of the Notes to the Consolidated Condensed Financial Statements) and disclosure relating to controls and procedures.

In August 2003, the Company reported that it would restate its financial results for the first three quarters of fiscal year 2003 due to certain acquisition related and other accounting adjustments. The acquisition related adjustments were primarily attributable to the Company's reassessment of the prior allocations to identifiable intangible assets and goodwill, along with restructuring charges related to certain acquisitions during fiscal year 2003. During the Company's subsequent review of the identifiable intangible assets, such as customer contracts and relationships, it was determined that these assets were undervalued by approximately \$20.8 million. Accordingly, the first three quarters of fiscal year 2003 were restated to reflect the related additional non-cash amortization expense and the other accounting adjustments. The other accounting adjustments pertain to restructuring activities related to the recent acquisitions, revenue recognition and contract accounting, accrued liabilities and stock awards with related shareholder notes. In total, these adjustments resulted in a decrease in previously reported net income and earnings per share, for the three months and nine months ended March 31, 2003 of \$8.2 million, or \$0.04 per share, and \$13.0 million, or \$0.07 per share, respectively.

On September 29, 2003, the Company filed its Form 10-K for the fiscal year ended June 30, 2003, containing, among other items, the reports of Grant Thornton LLP on the Company's audited financial statements and financial statement schedule for 2001 and 2002, and the consent of Grant Thornton LLP on Exhibit 23.1. After the market close on October 3, 2003, Grant Thornton LLP informed the Company in writing that it had not provided its manually signed opinion or consent to the Company and had not otherwise authorized the filing of such report and consent. On October 6, 2003, Grant Thornton LLP provided to the Company its two manually signed reports and consent for inclusion in the Company's Form 10-K/A filed on October 6, 2003. Solely in light of Grant Thornton LLP's statement on October 3, 2003, PricewaterhouseCoopers LLP withdrew its reports and consent filed with the Company's Form 10-K on October 5, 2003. On October 6, 2003, PricewaterhouseCoopers LLP provided its reports and consent with respect to the Company's audited financial statements and schedule for fiscal year 2003 in connection with the Company's Form 10-K/A filed on October 6, 2003.

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**BEARINGPOINT, INC.**

**QUARTERLY REPORT ON FORM 10-Q/A  
FOR THE QUARTER ENDED MARCH 31, 2003**

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**Table of Contents****BEARINGPOINT, INC.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(in thousands, except share and per share amounts)****(unaudited)**

|   | Three Months Ended<br>March 31, |            | Nine Months Ended<br>March 31, |              |
|---|---------------------------------|------------|--------------------------------|--------------|
|   | 2003                            | 2002       | 2003                           | 2002         |
|   | <i>as restated</i>              |            | <i>as restated</i>             |              |
| Revenue   | \$ 818,870                      | \$ 582,305 | \$ 2,359,142                   | \$ 1,784,414 |
| Costs of service:   |                                 |            |                                |              |
| Professional compensation   | 379,682                         | 224,206    | 1,068,691                      | 717,038      |
| Other direct contract expenses                                    | 192,598                         | 143,254    | 534,261                        | 442,990      |
| Other costs of service  | 71,942                          | 51,322     | 213,208                        | 163,970      |
| Total costs of service  | 644,222                         | 418,782    | 1,816,160                      | 1,323,998    |
| Gross profit  | 174,648                         | 163,523    | 542,982                        | 460,416      |
| Amortization of purchased intangible assets                       | 12,396                          | 1,005      | 31,730                         | 2,009        |
| Selling, general and administrative expenses                      | 141,526                         | 112,990    | 425,107                        | 346,161      |
| Operating income  | 20,726                          | 49,528     | 86,145                         | 112,246      |
| Interest expense  | 5,028                           | 601        | 10,690                         | 1,714        |
| Interest income   | (446)                           | (878)      | (1,514)                        | (2,165)      |
| Other (income) expense, net                                       | 1,432                           | 331        | 1,453                          | 903          |
| Income before taxes   | 14,712                          | 49,474     | 75,516                         | 111,794      |
| Income tax expense  | 10,571                          | 25,726     | 44,515                         | 59,136       |
| Income before cumulative effect of change in accounting principle | 4,141                           | 23,748     | 31,001                         | 52,658       |
| Cumulative effect of change in accounting principle, net of tax   |                                 |            |                                | (79,960)     |
| Net income (loss)   | \$ 4,141                        | \$ 23,748  | \$ 31,001                      | \$ (27,302)  |
| Earnings (loss) per share basic and diluted:                      |                                 |            |                                |              |
| Income before cumulative effect of change in accounting principle | \$ 0.02                         | \$ 0.15    | \$ 0.17                        | \$ 0.33      |
| Cumulative effect of change in accounting principle               |                                 |            |                                | (0.51)       |
| Net income (loss)   | \$ 0.02                         | \$ 0.15    | \$ 0.17                        | \$ (0.17)    |

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|                                 |             |             |             |             |
|---------------------------------|-------------|-------------|-------------|-------------|
| Weighted average shares basic   | 190,287,455 | 157,368,815 | 183,566,280 | 157,490,844 |
| Weighted average shares diluted | 190,327,222 | 159,620,010 | 183,695,820 | 158,510,299 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

**Table of Contents****BEARINGPOINT, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS****(in thousands, except share amounts)**

|   | <b>March 31,<br/>2003</b> | <b>June 30,<br/>2002</b> |
|---|---------------------------|--------------------------|
|   | <b>(unaudited)</b>        |                          |
|   | <i>as restated</i>        |                          |
| <b>ASSETS</b>   |                           |                          |
| Current assets:   |                           |                          |
| Cash and cash equivalents   | \$ 43,981                 | \$ 203,597               |
| Accounts receivable, net  | 347,605                   | 246,792                  |
| Unbilled revenue  | 272,334                   | 128,883                  |
| Prepaid expenses and other current assets   | 102,822                   | 67,941                   |
|   | <u>766,742</u>            | <u>647,213</u>           |
| Total current assets  | 766,742                   | 647,213                  |
| Property and equipment, net   | 106,458                   | 60,487                   |
| Goodwill  | 978,754                   | 87,663                   |
| Other intangible assets, net  | 120,917                   | 75,652                   |
| Other assets  | 25,257                    | 24,116                   |
|   | <u>1,998,128</u>          | <u>895,131</u>           |
| Total assets  | \$ 1,998,128              | \$ 895,131               |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                           |                          |
| Current liabilities:  |                           |                          |
| Current portion of notes payable  | \$ 26,059                 | \$ 1,846                 |
| Accounts payable  | 90,655                    | 62,810                   |
| Accrued payroll and employee benefits   | 212,577                   | 130,554                  |
| Other current liabilities   | 186,576                   | 88,085                   |
|   | <u>515,867</u>            | <u>283,295</u>           |
| Total current liabilities   | 515,867                   | 283,295                  |
| Noncurrent portion of notes payable   | 297,685                   |                          |
| Other liabilities   | 63,596                    | 9,966                    |
|   | <u>877,148</u>            | <u>293,261</u>           |
| Total liabilities   | 877,148                   | 293,261                  |
| Stockholders' equity:   |                           |                          |
| Preferred Stock, \$.01 par value 10,000,000 shares authorized   |                           |                          |
| Common Stock, \$.01 par value 1,000,000,000 shares authorized, 195,513,393 shares issued on March 31, 2003 and 161,478,409 shares issued on June 30, 2002 | 1,945                     | 1,605                    |
| Additional paid-in capital  | 1,083,858                 | 689,210                  |
| Accumulated deficit   | (2,342)                   | (41,421)                 |
| Notes receivable from stockholders  | (9,218)                   | (10,151)                 |
| Accumulated other comprehensive income (loss)   | 82,464                    | (1,646)                  |
| Treasury stock, at cost (3,812,250 shares)  | (35,727)                  | (35,727)                 |
|   | <u>1,120,980</u>          | <u>601,870</u>           |
| Total stockholders' equity  | 1,120,980                 | 601,870                  |

|  |              |            |
|--|--------------|------------|
| Total liabilities and stockholders' equity | \$ 1,998,128 | \$ 895,131 |
|--|--------------|------------|

The accompanying notes are an integral part of these consolidated condensed financial statements.



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## BEARINGPOINT, INC.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|  | Nine Months Ended<br>March 31, |                 |
|--|--------------------------------|-----------------|
|  | 2003                           | 2002            |
|  | <u>as restated</u>             |                 |
| <b>Cash flows from operating activities:</b>                           |                                |                 |
| Net income (loss)  | \$ 31,001                      | \$ (27,302)     |
| Adjustments to reconcile to net cash provided by operating activities: |                                |                 |
| Cumulative effect of change in accounting principle                    |                                | 79,960          |
| Deferred income taxes and other  | (13,284)                       | (3,402)         |
| Stock awards   | 11,467                         |                 |
| Depreciation and amortization  | 79,182                         | 35,906          |
| Changes in assets and liabilities:                                     |                                |                 |
| Accounts receivable  | 21,714                         | 91,747          |
| Unbilled revenue   | (106,566)                      | 38,316          |
| Prepaid expenses and other current assets                              | (11,380)                       | 30,414          |
| Other assets   | 74                             | 13,508          |
| Accrued payroll and employee benefits                                  | (35,080)                       | (60,267)        |
| Accounts payable and other current liabilities                         | 21,879                         | 2,849           |
| Other liabilities  | 11,385                         |                 |
|  | <u>10,392</u>                  | <u>201,729</u>  |
| Net cash provided by operating activities                              |                                |                 |
| <b>Cash flows from investing activities:</b>                           |                                |                 |
| Purchases of property and equipment                                    | (55,882)                       | (17,408)        |
| Businesses acquired, net of cash acquired                              | (422,805)                      | (33,716)        |
| Purchases of other intangible assets                                   | (33,161)                       | (21,984)        |
| Purchases of equity investments  |                                | (2,234)         |
|  | <u>(511,848)</u>               | <u>(75,342)</u> |
| Net cash used in investing activities                                  |                                |                 |
| <b>Cash flows from financing activities:</b>                           |                                |                 |
| Proceeds from issuance of common stock                                 | 27,710                         | 29,972          |
| Repurchases of common stock  |                                | (29,175)        |
| Proceeds from notes payable  | 1,141,115                      |                 |
| Repayment of notes payable   | (828,216)                      | (8,404)         |
| Repurchase of minority interest in subsidiary                          |                                | (2,092)         |
| Notes receivable from stockholders                                     |                                | (1,673)         |
|  | <u>340,609</u>                 | <u>(11,372)</u> |
| Net cash provided by (used in) financing activities                    |                                |                 |
| Effect of exchange rate changes on cash and cash equivalents           | 1,231                          |                 |

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|   |            |            |
|---|------------|------------|
| Net increase (decrease) in cash and cash equivalents      | (159,616)  | 115,015    |
| Cash and cash equivalents beginning of period             | 203,597    | 45,914     |
| Cash and cash equivalents end of period                   | \$ 43,981  | \$ 160,929 |
| Supplementary cash flow information:                      |            |            |
| Interest paid   | \$ 7,326   | \$ 1,044   |
| Taxes paid  | \$ 42,346  | \$ 31,946  |
| Supplemental non-cash investing and financing activities: |            |            |
| Issuance of common stock for business acquisition         | \$ 364,437 | n/a        |
| Acquisition obligations from business acquisition         | \$ 5,543   | n/a        |

The accompanying notes are an integral part of these consolidated condensed financial statements.

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**BEARINGPOINT, INC.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**(in thousands, except share and per share amounts)**

**(unaudited)**

**Note 1. Basis of Presentation**

The accompanying unaudited interim consolidated condensed financial statements of BearingPoint, Inc. have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for quarterly reports on Form 10-Q/A. These statements do not include all of the information and note disclosures required by generally accepted accounting principles, and should be read in conjunction with our consolidated financial statements and notes thereto for the fiscal year ended June 30, 2002, included in the Company's Annual Report on Form 10-K filed with the SEC. The accompanying consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and reflect adjustments (consisting solely of normal, recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The results of operations for the three and nine months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2003. Certain prior period amounts have been reclassified to conform with the current period presentation.

**Note 2. Restatement**

This Amendment No. 1 to Quarterly Report on Form 10-Q/A should be read in conjunction with the Company's restated results as reported in the Forms 10-Q/A filed for the quarters ended September 30, 2002 and December 31, 2002, and in the Company's Annual Report on Form 10-K filed with the SEC for the year ended June 30, 2002. Certain adjustments that have been made to the September 30, 2002 and December 31, 2002 quarterly results have a cumulative impact, and consequently impact the Company's results for the three and nine months ended March 31, 2003.

BearingPoint experienced significant activity for the fiscal year ended June 30, 2003. During this period, the Company considerably expanded its global presence adding consulting resources in 8 additional countries through 15 purchase business acquisitions (referred to in this Form 10-Q/A as acquisitions ) for an aggregate purchase price of approximately \$800 million. In August 2003, the Company reported that it would restate its financial results for the first three quarters of fiscal year 2003. The restatements occurred in the following general areas:

Purchase accounting resulting from the application of SFAS No. 141, Business Combinations, and EITF 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination ;

Revenue recognition related to contract accounting and the application of SOP 81-1, Accounting for Performance of Construction Type and Certain Production-Type Contracts ;

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The accounting treatment of accrued liabilities and the use of estimated months to account for operations subsequent to certain international business acquisitions; and

The accounting treatment of stock awards and related shareholder notes.

In total these adjustments resulted in a decrease in previously reported net income and earnings per share in the third quarter of fiscal year 2003 of \$8,247, or \$0.04 per share, and in a decrease in net income and earnings per share for the nine months ended March 31, 2003 of \$12,957, or \$0.07 per share.

Summarized below is a more detailed discussion of the restatements along with a comparison of the amounts previously reported in the balance sheet and the statement of operations in our Form 10-Q for the three and nine months ended March 31, 2003.

### *Purchase Accounting*

During the quarter ended September 30, 2002, the Company completed various acquisitions that were accounted for as purchase business acquisitions, resulting in approximately \$26,359 in identified intangible assets. These acquisitions included the purchase of KPMG Consulting AG, a substantial consulting practice in Germany, and the purchase of all or parts of a number of Andersen Business Consulting practices worldwide. The Company completed preliminary purchase price allocations to allocate the purchase prices to acquired assets and assumed liabilities. The excess of the cost of the acquired entities over the amounts assigned to the acquired assets and liabilities assumed was recognized as goodwill. As part of the initial purchase price allocation, value was ascribed to only contractual backlog (order backlog) and a trade name. This initial allocation was determined to be too low, and accordingly, an additional \$20,787 of value for identified intangible assets related to customer contracts and related customer relationships was allocated to these identified intangible assets with a corresponding reduction to goodwill. The additional intangible assets are being amortized over useful lives ranging from 12 to 15 months. As a result, approximately \$4,614 and \$11,829 of incremental amortization of purchased intangible assets were recorded in the three months and nine months ended March 31, 2003, respectively.

During the fiscal year ended June 30, 2003 the Company completed a series of restructurings related to many of its purchase business acquisitions increasing goodwill by approximately \$3,051 and \$5,255 for the three months and nine months ended March 31, 2003, respectively, for certain charges relating to exiting from leased facilities. It was determined that these charges did not satisfy the criteria to be included in purchase accounting in accordance with EITF 95-3, and were therefore deducted from goodwill and charged to costs of service.

### *Contract Accounting*

In one of our international consulting practices, we identified an accumulation of work in process on our balance sheet. The Company identified approximately \$2,375 and \$5,809 in revenue related to pre-contract activities that was inappropriately recognized in the three months and nine months ended March 31, 2003, respectively. As such, these amounts have been reversed from revenue, as no contractual arrangement existed at the time the amounts was recorded and recovery of these costs was not considered probable.

In addition, the Company identified certain circumstances where the percentage of completion method as prescribed under Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, was not appropriately applied. On a combined net basis, approximately \$2,391 has been reversed from revenue in the three months ended March 31, 2003, and approximately \$4,236 of additional revenue was recognized in the nine months ended March 31, 2003. In addition, costs of service was reduced by approximately \$1,148 and \$1,850 in the three months and nine months ended March 31, 2003, respectively.

*Accruals*

During fiscal 2003, we recorded accrued liabilities for our fringe benefits based on cost factors associated with projected labor hours. During fiscal 2003, we did not adjust the accrual as assumptions were revised. As a result, adjustments to correct the calculated fringe benefit accruals of approximately \$353 increased costs of service for the three months ended March 31, 2003, and reduced costs of service by approximately \$5,378 for the nine months ended March 31, 2003.

In connection with an increase in its deductible for its professional indemnity insurance, the Company established an accrued liability of \$2,226 during the three months and nine months ended March 31, 2003. This accrued liability was determined to be unwarranted and was therefore reversed, resulting in a reduction to selling, general and administrative expenses.

During the first quarter of fiscal year 2003, the Company completed a number of business acquisitions. At the end of the first post-transaction fiscal reporting period (the quarter ended September 30, 2002), certain of the entities were not able to close their books on a timely basis for U.S. public reporting purposes. As a result, the Company, in an effort to conform to a fiscal year convention, recorded an estimated month income statement and a net asset or liability account on the balance sheet for those entities. Subsequently, the Company did not reverse this estimated month and began reporting results on a one-month lag basis. The Company has restated the respective quarters to conform to a fiscal period end, and has eliminated the effect of the estimated month. The Company increased revenue by \$2,480 for the three months ended March 31, 2003, and reduced revenue by \$14,478 for the nine months ended March 31, 2003; increased costs of service by \$4,014 for the three months ended March 31, 2003, and decreased costs of service by \$7,901 for the nine months ended March 31, 2003; reduced selling, general and administrative expenses by \$592 and \$1,551 for the three months and nine months ended March 31, 2003, respectively.

*Stock awards and shareholders notes*

The company initially accounted for certain stock awards in prior years as fixed plan grants, with related payments to the respective employees for tax liabilities accounted for as interest-bearing shareholder notes. The initial accounting has been revised to treat the awards as a variable grant. The revision did not have a material impact on the statements of operations for any prior periods and therefore prior years financial statements have not been restated. Instead, the aggregate effect of the revised accounting has been reflected as adjustments to additional paid in capital, accumulated deficit and notes receivable from stockholders as of July 1, 2002. In addition, under the revised accounting, reserves recorded against the shareholder notes during the three months and nine months ended March 31, 2003 are not necessary and have been reversed, decreasing selling, general and administrative expenses by approximately \$2,250 and \$6,000 for the three months and nine months ended March 31, 2003, respectively.

*Other adjustments impacting net income*

Other adjustments recorded that were identified through both timely quarterly reviews as well as during the year-end closing process and ordinary course of the audit. These adjustments were not material either individually or in the aggregate to income before taxes.

*Reclassifications not impacting net income*

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Balance sheet and statement of operations reclassification adjustments were identified through both timely quarterly reviews as well as during the year-end closing process and ordinary course of the audit. The reclassifications are being made to conform the amounts previously reported to the restated presentations. These reclassifications do not impact net income, as previously reported.

The following tables outline the effects of the aforementioned adjustments on the three months and the nine months ended March 31, 2003:

**Table of Contents***Statements of Operations:*

|  | <b>Three Months Ended March 31, 2003</b>   |                        |               |
|--|--|------------------------|---------------|
|  | (unaudited)                                |                        |               |
|  | <b>Amounts<br/>Previously<br/>Reported</b> | <b>As<br/>Restated</b> | <b>Change</b> |
| Revenue                                      | \$ 821,325                                 | \$ 818,870             | \$ (2,455)(a) |
| Costs of service:                            |  |                        |               |
| Professional compensation                    | 376,979                                    | 379,682                | 2,703 (b)     |
| Other direct contract expenses               | 193,053                                    | 192,598                | (455)(c)      |
| Other costs of service                       | 66,870                                     | 71,942                 | 5,072 (d)     |
| Total costs of service                       | 636,902                                    | 644,222                | 7,320         |
| Gross profit                                 | 184,423                                    | 174,648                | (9,775)       |
| Amortization of purchased intangible assets  | 7,782                                      | 12,396                 | 4,614 (e)     |
| Selling, general and administrative expenses | 146,406                                    | 141,526                | (4,880)(f)    |
| Operating income                             | 30,235                                     | 20,726                 | (9,509)       |
| Interest/other (income) expense, net         | 5,945                                      | 6,014                  | 69(g)         |
| Income before taxes                          | 24,290                                     | 14,712                 | (9,578)       |
| Income tax expense                           | 11,902                                     | 10,571                 | (1,331)(h)    |
| Net income                                   | \$ 12,388                                  | \$ 4,141               | \$ (8,247)    |
| Earnings per share-basic                     | \$ 0.06                                    | \$ 0.02                | \$ (0.04)     |
| Earnings per share-diluted                   | \$ 0.06                                    | \$ 0.02                | \$ (0.04)     |

Statement of Operations components increased (decreased) as a result of the following:

|     |  |            |
|-----|--|------------|
| (a) | <i>Revenue</i>   |            |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ 2,480   |
|     | Adjust recognition of revenue for pre-contract related activities and application of the percentage of completion method of accounting | (4,766)    |
|     | Other adjustments impacting net income   | (169)      |
|     | Net decrease   | \$ (2,455) |
| (b) | <i>Professional compensation</i>   |            |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ 3,272   |
|     | Adjust recognition of revenue for application of the percentage of completion method of accounting                                     | (926)      |
|     | Adjustment to fringe benefit accrual   | 310        |
|     | Reclassifications not impacting net income   | (12)       |

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|   |            |
|---|------------|
| Other adjustments impacting net income  | 669        |
| Adjustments for acquisition related restructuring   | (610)      |
|   | <hr/>      |
| Net increase  | \$ 2,703   |
|   | <hr/>      |
| (c) <i>Other direct contract expenses</i>   |            |
| Eliminate the estimated month and conform to fiscal year reporting  | \$ (232)   |
| Adjust recognition of revenue for application of the percentage of completion method of accounting          | (222)      |
| Other adjustments impacting net income  | (1)        |
|   | <hr/>      |
| Net decrease  | \$ (455)   |
|   | <hr/>      |
| (d) <i>Other costs of service</i>   |            |
| Eliminate the estimated month and conform to fiscal year reporting  | \$ 974     |
| Adjustment to fringe benefit accrual  | 43         |
| Reclassifications not impacting net income  | (27)       |
| Adjustments for acquisition related restructuring   | 3,661      |
| Other adjustments impacting net income  | 421        |
|   | <hr/>      |
| Net increase  | \$ 5,072   |
|   | <hr/>      |
| (e) <i>Amortization of purchased intangible assets</i>  |            |
| Incremental amortization due to the identification of customer contracts and related customer relationships | \$ 4,614   |
|   | <hr/>      |
| (f) <i>Selling, general and administrative expenses</i>   |            |
| Eliminate the estimated month and conform to fiscal year reporting  | \$ (592)   |
| Adjustment to professional indemnity accrual  | (2,226)    |
| Reclassifications not impacting net income  | 39         |
| Other adjustments impacting net income  | 149        |
| Reversal of expense relating to shareholder notes   | (2,250)    |
|   | <hr/>      |
| Net decrease  | \$ (4,880) |
|   | <hr/>      |
| (g) <i>Interest/other (income) expense, net</i>   |            |
| Eliminating the estimated month and conform to fiscal year reporting  | \$ 26      |
| Reversal of interest income relating to shareholder notes   | 43         |
|   | <hr/>      |
| Net increase  | \$ 69      |
|   | <hr/>      |
| (h) <i>Income tax expense</i>   |            |
| Net decrease to income tax expense due to above adjustments   | \$ (1,331) |
|   | <hr/>      |

*Statements of Operations:*

| Nine Months Ended March 31, 2003  |                               |        |
|-----------------------------------|-------------------------------|--------|
| Amounts<br>Previously<br>Reported | (unaudited)<br>As<br>Restated | Change |
| <hr/>                             | <hr/>                         | <hr/>  |



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|  |              |              |                |
|--|--------------|--------------|----------------|
| Revenue                                      | \$ 2,376,796 | \$ 2,359,142 | \$ (17,654)(a) |
| Costs of service:                            |              |              |                |
| Professional compensation                    | 1,078,555    | 1,068,691    | (9,864)(b)     |
| Other direct contract expenses               | 535,486      | 534,261      | (1,225)(c)     |
| Other costs of service                       | 205,657      | 213,208      | 7,551 (d)      |
| Total costs of service                       | 1,819,698    | 1,816,160    | (3,538)        |
| Gross profit                                 | 557,098      | 542,982      | (14,116)       |
| Amortization of purchased intangible assets  | 19,901       | 31,730       | 11,829 (e)     |
| Selling, general and administrative expenses | 439,312      | 425,107      | (14,205)(f)    |
| Operating income                             | 97,885       | 86,145       | (11,740)       |
| Interest/other (income) expense, net         | 9,817        | 10,629       | 812 (g)        |
| Income before taxes                          | 88,068       | 75,516       | (12,552)       |
| Income tax expense                           | 44,110       | 44,515       | 405 (h)        |
| Net income                                   | \$ 43,958    | \$ 31,001    | \$ (12,957)    |
| Earnings per share-basic                     | \$ 0.24      | \$ 0.17      | \$ (0.07)      |
| Earnings per share-diluted                   | \$ 0.24      | \$ 0.17      | \$ (0.07)      |

Statement of Operations components increased (decreased) as a result of the following:

|     |  |             |
|-----|--|-------------|
| (a) | <i>Revenue</i>   |             |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ (14,478) |
|     | Adjust recognition of revenue for pre-contract related activities and application of the percentage of completion method of accounting | (1,573)     |
|     | Reclassifications not impacting net income   | (201)       |
|     | Other adjustments impacting net income   | (1,402)     |
|     | Net decrease   | \$ (17,654) |
| (b) | <i>Professional compensation</i>   |             |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ (4,314)  |
|     | Adjust recognition of revenue for application of the percentage of completion method of accounting                                     | (1,173)     |
|     | Adjustment to fringe benefit accrual   | (4,745)     |
|     | Reclassifications not impacting net income   | (114)       |
|     | Adjustments for acquisition related restructuring  | (610)       |
|     | Other adjustments impacting net income   | 1,092       |
|     | Net decrease   | \$ (9,864)  |
| (c) | <i>Other direct contract expenses</i>  |             |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ (3,269)  |
|     | Adjust recognition of revenue for application of the percentage of completion method of accounting                                     | (677)       |
|     | Reclassifications not impacting net income   | 2,721       |
|     | Net decrease   | \$ (1,225)  |
| (d) | <i>Other costs of service</i>  |             |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ (318)    |

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|   |             |
|---|-------------|
| Adjustment to fringe benefit accrual  | (633)       |
| Reclassifications not impacting net income  | 2,508       |
| Adjustments for acquisition related restructuring   | 5,865       |
| Other adjustments impacting net income  | 129         |
|   | <hr/>       |
| Net increase  | \$ 7,551    |
|   | <hr/>       |
| (e) <i>Amortization of purchased intangible assets</i>  |             |
| Incremental amortization due to the identification of customer contracts and related customer relationships | \$ 11,829   |
|   | <hr/>       |
| (f) <i>Selling, general and administrative expenses</i>   |             |
| Eliminate the estimated month and conform to fiscal year reporting  | \$ (1,551)  |
| Adjustment to professional indemnity accrual  | (2,226)     |
| Reclassifications not impacting net income  | (5,316)     |
| Other adjustments impacting net income  | 888         |
| Reversal of expense relating to shareholder notes   | (6,000)     |
|   | <hr/>       |
| Net decrease  | \$ (14,205) |
|   | <hr/>       |
| (g) <i>Interest/Other (income) expense, net</i>   |             |
| Eliminating the estimated month and conform to fiscal year reporting  | \$ 297      |
| Other adjustments impacting net income  | 221         |
| Reversal of interest income relating to shareholder notes   | 294         |
|   | <hr/>       |
| Net increase  | \$ 812      |
|   | <hr/>       |
| (h) <i>Income tax expense</i>   |             |
| Net increase to income tax expense due to above adjustments   | \$ 405      |
|   | <hr/>       |

**Table of Contents****Balance Sheets:**

|   | March 31, 2003                   |                  |                   |
|---|----------------------------------|------------------|-------------------|
|   | Amount<br>Previously<br>Reported | (unaudited)      |                   |
|   |                                  | As Restated      | Change            |
| <b>ASSETS</b>   |                                  |                  |                   |
| Current assets:   |                                  |                  |                   |
| Cash and cash equivalents   | \$ 44,360                        | \$ 43,981        | \$ (379)(a)       |
| Accounts receivable, net  | 349,383                          | 347,605          | (1,778)(b)        |
| Unbilled revenue  | 270,307                          | 272,334          | 2,027 (c)         |
| Prepaid expenses and other current assets   | 110,597                          | 102,822          | (7,775)(d)        |
|   | <u>774,647</u>                   | <u>766,742</u>   | <u>(7,905)</u>    |
| Total current assets  | 774,647                          | 766,742          | (7,905)           |
| Property and equipment, net   | 106,039                          | 106,458          | 419 (e)           |
| Goodwill  | 995,809                          | 978,754          | (17,055)(f)       |
| Other intangible assets, net  | 108,672                          | 120,917          | 12,245 (g)        |
| Other assets  | 22,398                           | 25,257           | 2,859 (h)         |
|   | <u>2,007,565</u>                 | <u>1,998,128</u> | <u>\$ (9,437)</u> |
| Total assets  | \$ 2,007,565                     | \$ 1,998,128     | \$ (9,437)        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                  |                  |                   |
| Current liabilities:  |                                  |                  |                   |
| Current portion of notes payable  | \$ 26,059                        | \$ 26,059        | \$                |
| Accounts payable  | 93,186                           | 90,655           | (2,531)(i)        |
| Accrued payroll and employee benefits   | 213,642                          | 212,577          | (1,065)(j)        |
| Other current liabilities   | 179,637                          | 186,576          | 6,939 (k)         |
|   | <u>512,524</u>                   | <u>515,867</u>   | <u>3,343</u>      |
| Total current liabilities   | 512,524                          | 515,867          | 3,343             |
| Noncurrent portion of notes payable   | 297,685                          | 297,685          |                   |
| Other liabilities   | 62,968                           | 63,596           | 628 (l)           |
|   | <u>873,177</u>                   | <u>877,148</u>   | <u>3,971</u>      |
| Total liabilities   | 873,177                          | 877,148          | 3,971             |
| Stockholders' equity  |                                  |                  |                   |
| Preferred Stock, \$.01 par value 10,000,000 shares authorized   |                                  |                  |                   |
| Common Stock, \$.01 par value 1,000,000,000 shares authorized, 195,513,393 shares issued on March 31, 2003 and 161,478,409 shares issued on June 30, 2002 | 1,945                            | 1,945            |                   |
| Additional paid-in capital  | 1,092,825                        | 1,083,858        | (8,967)(m)        |
| Accumulated deficit   | 2,537                            | (2,342)          | (4,879)(n)        |
| Notes receivable from stockholders  | (10,504)                         | (9,218)          | 1,286 (o)         |
| Accumulated other comprehensive income  | 83,312                           | 82,464           | (848)(p)          |
| Treasury stock, at cost (3,812,250 shares)  | (35,727)                         | (35,727)         |                   |
|   | <u>1,134,388</u>                 | <u>1,120,980</u> | <u>(13,408)</u>   |
| Total stockholders' equity  | 1,134,388                        | 1,120,980        | (13,408)          |
| Total liabilities and stockholders' equity  | \$ 2,007,565                     | \$ 1,998,128     | \$ (9,437)        |

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Balance sheet components increased (decreased) due to the following:

|     |  |                            |
|-----|--|----------------------------|
| (a) | <i>Cash and cash equivalents</i>   |                            |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ (6,115)                 |
|     | Reclassifications not impacting net income   | 5,736                      |
|     |  | <hr style="width: 100%;"/> |
|     | Net decrease   | \$ (379)                   |
|     |  | <hr style="width: 100%;"/> |
| (b) | <i>Accounts Receivable, net</i>  |                            |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ (1,778)                 |
|     |  | <hr style="width: 100%;"/> |
| (c) | <i>Unbilled Revenue</i>  |                            |
|     | Adjust recognition of revenue for pre-contract related activities and application of the percentage of completion method of accounting | \$ (28)                    |
|     | Eliminate the estimated month and conform to fiscal year reporting   | 2,588                      |
|     | Other adjustments impacting net income   | (533)                      |
|     |  | <hr style="width: 100%;"/> |
|     | Net increase   | \$ 2,027                   |
|     |  | <hr style="width: 100%;"/> |
| (d) | <i>Prepaid expenses and other current assets</i>   |                            |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ (533)                   |
|     | Reclassifications not impacting net income   | (5,889)                    |
|     | Other adjustments impacting net income   | (1,353)                    |
|     |  | <hr style="width: 100%;"/> |
|     | Net decrease   | \$ (7,775)                 |
|     |  | <hr style="width: 100%;"/> |
| (e) | <i>Property and equipment, net</i>   |                            |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ 2,764                   |
|     | Reclassifications not impacting net income   | (2,197)                    |
|     | Other adjustments impacting net income   | (148)                      |
|     |  | <hr style="width: 100%;"/> |
|     | Net increase   | \$ 419                     |
|     |  | <hr style="width: 100%;"/> |
| (f) | <i>Goodwill</i>  |                            |
|     | Other adjustments impacting net income   | \$ 1,240                   |
|     | Purchase accounting adjustments, including deferred tax impact and acquisition-related restructuring adjustments                       | 2,492                      |
|     | Reduction of goodwill due to incremental value recorded to identified intangible assets  | (20,787)                   |
|     |  | <hr style="width: 100%;"/> |
|     | Net decrease   | \$ (17,055)                |
|     |  | <hr style="width: 100%;"/> |
| (g) | <i>Other intangible assets, net</i>  |                            |
|     | Reclassifications not impacting net income   | \$ 2,197                   |
|     | Other adjustments impacting net income   | (224)                      |
|     | Incremental amortization of intangible assets  | 8,796                      |
|     | Purchase accounting adjustments  | 1,476                      |
|     |  | <hr style="width: 100%;"/> |
|     | Net increase   | \$ 12,245                  |
|     |  | <hr style="width: 100%;"/> |
| (h) | <i>Other assets</i>  |                            |
|     | Eliminate the estimated month and conform to fiscal year reporting   | \$ 238                     |
|     | Reclassifications not impacting net income   | 2,581                      |
|     | Other adjustments impacting net income   | 40                         |
|     |  | <hr style="width: 100%;"/> |
|     | Net increase   | \$ 2,859                   |

|   |  |            |
|---|--|------------|
| <b>(i) Accounts payable</b>   |  |            |
| Eliminate the estimated month and conform to fiscal year reporting                                  |  | \$ (2,630) |
| Other adjustments impacting net income  |  | 99         |
| Net decrease  |  | \$ (2,531) |
| <b>(j) Accrued payroll and related liabilities</b>  |  |            |
| Adjustment to fringe benefit accrual  |  | \$ (5,377) |
| Eliminate the estimated month and conform to fiscal year reporting                                  |  | 1,591      |
| Other adjustments impacting net income  |  | 1,192      |
| Additional accrued liabilities that increases goodwill  |  | 1,529      |
| Net decrease  |  | \$ (1,065) |
| <b>(k) Other current liabilities</b>  |  |            |
| Eliminate the estimated month and conform to fiscal year reporting                                  |  | \$ 3,526   |
| Adjustment to fringe benefit and professional indemnity accrual                                     |  | (2,226)    |
| Reclassifications not impacting net income  |  | 2,429      |
| Adjustments relating to shareholder notes   |  | (6,000)    |
| Purchase accounting adjustments   |  | (391)      |
| Other adjustments impacting net income  |  | 796        |
| Deferred tax impact related to purchase accounting adjustments                                      |  | 8,399      |
| Net income tax payable impact due to adjustments  |  | 406        |
| Net increase  |  | \$ 6,939   |
| <b>(l) Other liabilities</b>  |  |            |
| Other adjustments impacting net income  |  | \$ 628     |
| <b>(m) Additional paid-in capital</b>   |  |            |
| Other adjustments impacting net income  |  | \$ 100     |
| Adjustment relating to shareholder notes  |  | (9,067)    |
| Net decrease  |  | \$ (8,967) |
| <b>(n) Accumulated deficit</b>  |  |            |
| Net decrease to accumulated deficit from above adjustments  |  | \$ (4,879) |
| <b>(o) Notes receivable from stockholders</b>   |  |            |
| Adjustment relating to shareholder notes  |  | \$ 1,286   |
| <b>(p) Accumulated other comprehensive income</b>   |  |            |
| Adjust recognition of revenue for pre-contract related activities and application of the percentage |  |            |
| of completion method of accounting  |  | \$ (303)   |
| Incremental amortization of intangibles   |  | (163)      |
| Other adjustments impacting net income  |  | (69)       |
| Adjustments for acquisition related restructuring   |  | (86)       |
| Purchase accounting adjustments   |  | (227)      |
| Net decrease  |  | \$ (848)   |



**Table of Contents****Note 3. Segment Reporting**

Effective in the first quarter of fiscal year 2003, upon completion of a series of business acquisitions, the Company has eight reportable segments in addition to the Corporate/Other category. Performance of the segments is evaluated based on operating income excluding the costs of infrastructure functions (such as information systems, finance and accounting, human resources, legal and marketing). The information presented for the three and nine months ended March 31, 2003 has been restated from that which was previously reported to reflect additional reportable segments. Prior year segment data has been reclassified to reflect the addition of three international reportable segments (EMEA, the Asia Pacific and Latin America regions).

|                               | <b>Three Months Ended March 31,</b> |                  |                    |                  |
|-------------------------------|-------------------------------------|------------------|--------------------|------------------|
|                               | <b>2003</b>                         |                  | <b>2002</b>        |                  |
|                               | <b>Operating</b>                    |                  | <b>Operating</b>   |                  |
|                               | <b>Revenue</b>                      | <b>Income</b>    | <b>Revenue</b>     | <b>Income</b>    |
|                               | <i>as restated</i>                  |                  | <i>as restated</i> |                  |
| Public Services               | \$ 276,707                          | \$ 77,224        | \$ 256,829         | \$ 83,688        |
| Communications & Content      | 88,407                              | 21,570           | 115,371            | 32,970           |
| Financial Services            | 59,056                              | 12,306           | 47,218             | 8,128            |
| Consumer & Industrial Markets | 95,132                              | 20,588           | 69,041             | 19,839           |
| High Technology               | 41,701                              | 9,620            | 43,269             | 9,665            |
| EMEA                          | 157,607                             | 8,844            | 4,985              | 470              |
| Asia Pacific                  | 83,990                              | 9,359            | 34,220             | 2,447            |
| Latin America                 | 16,093                              | 3,729            | 10,129             | (1,997)          |
| Corporate/Other (a)           | 177                                 | (142,514)        | 1,243              | (105,682)        |
| <b>Total</b>                  | <b>\$ 818,870</b>                   | <b>\$ 20,726</b> | <b>\$ 582,305</b>  | <b>\$ 49,528</b> |

|                               | <b>Nine Months Ended March 31,</b> |               |                    |               |
|-------------------------------|------------------------------------|---------------|--------------------|---------------|
|                               | <b>2003</b>                        |               | <b>2002</b>        |               |
|                               | <b>Operating</b>                   |               | <b>Operating</b>   |               |
|                               | <b>Revenue</b>                     | <b>Income</b> | <b>Revenue</b>     | <b>Income</b> |
|                               | <i>as restated</i>                 |               | <i>as restated</i> |               |
| Public Services               | \$ 811,591                         | \$ 236,878    | \$ 712,170         | \$ 230,712    |
| Communications & Content      | 275,448                            | 75,958        | 380,919            | 105,732       |
| Financial Services            | 175,859                            | 39,423        | 168,657            | 20,280        |
| Consumer & Industrial Markets | 291,182                            | 62,573        | 227,369            | 55,575        |
| High Technology               | 116,543                            | 25,098        | 155,979            | 29,430        |
| EMEA                          | 428,860                            | 59,590        | 14,556             | 2,497         |
| Asia Pacific                  | 211,468                            | 17,921        | 89,834             | 4,336         |
| Latin America                 | 47,460                             | 12,564        | 33,515             | (5,563)       |
| Corporate/Other (a)           | 731                                | (443,860)     | 1,415              | (330,753)     |

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|       |              |           |              |            |
|-------|--------------|-----------|--------------|------------|
| Total | \$ 2,359,142 | \$ 86,145 | \$ 1,784,414 | \$ 112,246 |
|-------|--------------|-----------|--------------|------------|

(a) Corporate/Other operating loss is principally due to infrastructure and shared services costs.

The Company's total consolidated assets as of March 31, 2003 were \$1,998,128, compared to \$895,131 as of the year ended June 30, 2002. This change in total assets of \$1,102,997 is primarily due to an increase in goodwill of \$891,091 resulting from the acquisition of KPMG Consulting AG and acquisitions involving various global Andersen Business Consulting practices. For changes in the carrying amount of goodwill by reportable segment for the nine months ended March 31, 2003, see Note 12, "Goodwill and Other Intangible Assets."



**Table of Contents****Note 4. Comprehensive Income (Loss)**

The components of comprehensive income (loss) are as follows:

|   | Three Months Ended<br>March 31, |           | Nine Months Ended<br>March 31, |             |
|---|---------------------------------|-----------|--------------------------------|-------------|
|   | 2003                            | 2002      | 2003                           | 2002        |
|   | <i>as restated</i>              |           | <i>as restated</i>             |             |
| Income before cumulative effect of change in accounting principle | \$ 4,141                        | \$ 23,748 | \$ 31,001                      | \$ 52,658   |
| Cumulative effect of change in accounting principle               |                                 |           |                                | (79,960)    |
| Net income (loss)   | 4,141                           | 23,748    | 31,001                         | (27,302)    |
| Foreign currency translation adjustment, net of tax (a)           | 35,768                          | 440       | 83,376                         | 1,209       |
| Unrealized gain (loss) on derivative instruments, net of tax      | (39)                            |           | 734                            |             |
| Comprehensive income (loss)                                       | \$ 39,870                       | \$ 24,188 | \$ 115,111                     | \$ (26,093) |

(a) Movement in the foreign currency translation adjustment for the three and nine months ended March 31, 2003 is primarily due to acquisitions in Europe during the first quarter of fiscal year 2003 combined with the strengthening of the Euro against the U.S. dollar

**Note 5. Earnings Per Share of Common Stock**

Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares outstanding during the period plus the dilutive effect of potential future issues of common stock relating to the Company's stock option program and other potentially dilutive securities. In calculating diluted earnings per share, the dilutive effect of stock options is computed using the average market price for the period.

The following table sets forth the computation of basic and diluted earnings per share:

|   | Three Months Ended March 31, |           | Nine Months Ended March 31, |             |
|---|------------------------------|-----------|-----------------------------|-------------|
|   | 2003                         | 2002      | 2003                        | 2002        |
|   | <i>as restated</i>           |           | <i>as restated</i>          |             |
| Net income before cumulative effect of change in accounting principle - basic | \$ 4,141                     | \$ 23,748 | \$ 31,001                   | \$ 52,658   |
| Cumulative effect of change in accounting principle                           |                              |           |                             | (79,960)    |
| Adjusted income (loss) - diluted  | \$ 4,141                     | \$ 23,748 | \$ 31,001                   | \$ (27,302) |

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|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Weighted average shares outstanding basic   | 190,287,455 | 157,368,815 | 183,566,280 | 157,490,844 |
| Employee stock options                      | 39,767      | 2,251,195   | 129,540     | 1,019,455   |
| Weighted average shares outstanding diluted | 190,327,222 | 159,620,010 | 183,695,820 | 158,510,299 |
| Earnings (loss) per share basic and diluted | \$ 0.02     | \$ 0.15     | \$ 0.17     | \$ (0.17)   |

Common shares related to outstanding stock options and other potentially dilutive securities that were excluded from the computation of diluted earnings per share as the effect would have been anti-dilutive were 51,706,610 and 30,281,482 for the three months ended March 31, 2003 and 2002, respectively, and 46,491,704 and 31,513,222 for the nine months ended March 31, 2003 and 2002, respectively.

**Table of Contents****Note 6. Change in Estimate**

During the second quarter of fiscal year 2003, the Company recorded a change in estimate, which decreased the expected remaining useful life of certain systems applications used as part of its infrastructure operations. The change in estimate was a result of the Company's continued build-out of certain infrastructure functions scheduled to be completed in the last quarter of calendar year 2003, which upon completion will replace the existing applications. This change in estimate resulted in a charge to net income of \$1,775 (net of tax) or \$0.01 per share for the three months ended March 31, 2003 and \$2,958 (net of tax) or \$0.02 per share for the nine months ended March 31, 2003.

**Note 7. Acquisitions**

During fiscal year 2003, the Company continued to expand its operations through the acquisition of KPMG Consulting AG (subsequently renamed BearingPoint GmbH ( BE Germany )), from the German member firm of KPMG International, and acquisitions with various global Andersen Business Consulting practices.

*KPMG Consulting AG*

On August 22, 2002, as part of a significant expansion in our international presence, the Company acquired 100% of the outstanding shares of BE Germany pursuant to a share purchase agreement, for approximately \$651,906. The purchase of BE Germany was paid for through the issuance of 30,471,309 shares of common stock to the sellers at \$11.96 per share, \$273,583 in cash to the sellers, and approximately \$13,886 in acquisition related transaction costs incurred to date. BE Germany's operations consist primarily of consulting practices in Germany, Switzerland and Austria. The preliminary allocation of the purchase price to assets acquired and liabilities assumed was as follows:

|                         | <b>Preliminary<br/>Allocation of<br/>Purchase Price</b> |
|-------------------------|---|
|                         | <i>as restated</i>                                      |
| Current assets          | \$ 138,332  |
| Goodwill                | 647,128   |
| Purchased intangibles   | 41,019  |
| Acquired software       | 8,015   |
| Other long-lived assets | 15,750  |
|                         | <hr/>   |
| Total assets            | \$ 850,244  |
| Current liabilities     | (153,256)   |
| Long-term liabilities   | (45,082)  |
|                         | <hr/>   |
| Total purchase price    | <b>\$ 651,906</b>                                       |

The significance of the goodwill balance is primarily due to the value related to the acquired workforce. Purchased intangibles acquired include customer-related intangible assets for backlog, customer contracts and related customer relationships of \$39,615 and trade name of \$1,404. Goodwill is not deductible for German tax purposes.

In connection with the acquisition of the BE Germany business, the Company announced a reduction of its workforce by approximately 700 employees, in order to balance workforce capacity with market demand for services. Severance and termination benefits related to this workforce reduction totaled \$25,717 and has been accounted for as part of the acquisition of BE Germany. As of March 31, 2003, approximately \$14,927 of the total liability has been paid.

**Table of Contents***Pro Forma Results*

Effective August 1, 2002, the results of BE Germany's operations have been included in the consolidated financial results of the Company. The following unaudited pro forma financial information presents the combined results of operations of the Company and BE Germany as if the acquisition had occurred as of the beginning of the periods presented. The pro forma financial information has been prepared using information derived from the Company and BE Germany's historical consolidated financial statements. The unaudited pro forma financial information is presented for informational purposes only and does not purport to be indicative of the Company's future results of operations or financial position or what the Company's results of operations or financial position would have been had the Company completed the acquisition of BE Germany at an earlier date. The pro forma adjustments are based on available information and upon assumptions that the Company believes are reasonable.

|   | <b>Pro Forma</b>                    |             |                                    |              |
|---|-------------------------------------|-------------|------------------------------------|--------------|
|   | <b>Three Months Ended March 31,</b> |             | <b>Nine Months Ended March 31,</b> |              |
|   | <b>2003</b>                         | <b>2002</b> | <b>2003</b>                        | <b>2002</b>  |
|   | <i>as restated</i>                  |             | <i>as restated</i>                 |              |
| Revenue   | \$ 818,870                          | \$ 704,078  | \$ 2,399,996                       | \$ 2,175,264 |
| Income before cumulative effect of change in accounting principle | 4,141                               | 19,379      | 28,459                             | 52,396       |
| Cumulative effect of change in accounting principle               |                                     |             |                                    | (79,960)     |
| Net income (loss)   | \$ 4,141                            | \$ 19,379   | \$ 28,459                          | \$ (27,564)  |
| Earnings (loss) per share - basic and diluted:                    |                                     |             |                                    |              |
| Income before cumulative effect of change in accounting principle | \$ 0.02                             | \$ 0.10     | \$ 0.15                            | \$ 0.28      |
| Cumulative effect of change in accounting principle               |                                     |             |                                    | (0.43)       |
| Net income (loss)   | \$ 0.02                             | \$ 0.10     | \$ 0.15                            | \$ (0.15)    |
| Weighted average shares - basic                                   | 190,287,455                         | 187,840,124 | 189,237,947                        | 187,962,152  |
| Weighted average shares - diluted                                 | 190,327,222                         | 190,091,319 | 189,367,487                        | 188,981,608  |

The unaudited pro forma financial information above reflects the following adjustments to the historical consolidated financial statements for the three months ended March 31, 2002 and the nine months ended March 31, 2003 and 2002: amortization expense on purchased intangible assets consisting of backlog and trade name in the amount of \$5,034 (net of tax), \$1,678 (net of tax) and \$15,102 (net of tax), respectively; interest expense associated with the debt financing of the Company's acquisition of BE Germany of \$2,278 (net of tax), \$360 (net of tax) and \$4,840 (net of tax), respectively; and an increase in the number of weighted average common shares outstanding of 30,471,309, 5,671,667 and 30,471,309, respectively, as a result of including shares issued as consideration for the equity portion of the purchase price. For the pro forma effects of this acquisition on the Company's results of operations for the year ended June 30, 2002, and the Company's financial position at June 30, 2002, refer to the Company's Form 8-K/A filed with the SEC on October 17, 2002.

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### *Andersen Business Consulting Practices*

During the first quarter of fiscal 2003, the Company entered into a series of acquisitions of Andersen Business Consulting practices around the world, in order to expand the Company's global presence. The acquisitions included practices from the United States, Spain, Japan, France, Brazil, Switzerland, Norway, Finland, Sweden, Singapore, South Korea and Peru. The Company also acquired the business consulting practice of Ernst & Young in Brazil and, in the second quarter of fiscal 2003, the consulting unit of the KPMG International member firm in Finland. The aggregate purchase price of the acquisitions, paid in cash, totaled \$136,172 including \$7,988 related to transaction costs. The allocation of the aggregate purchase price was \$147,785 to goodwill, \$6,127 to purchased intangibles and approximately \$17,700 of net liabilities acquired, primarily employee liabilities assumed.

The significance of the goodwill balance is primarily due to the value related to the acquired workforce. Purchased intangibles acquired include customer-related intangible assets for order backlog, customer contracts and related customer relationships of \$6,127. Goodwill of \$63,416 relating to the acquisition of the Andersen Business Consulting practice in the United States is expected to be deductible for tax purposes. Goodwill of \$84,369 relating to the acquisitions of the remaining Andersen Business Consulting practices is tax deductible if the earnings are remitted to the United States. The Company does not anticipate remitting such earnings to the United States.

The results of the operations for each of the acquisitions in the European region have been included in the consolidated financial results beginning on the consummation date of each acquisition. The results of the operations for each of the acquisitions in the Asia Pacific and Latin America regions have been included in the consolidated financial results beginning in the month following the consummation date of each acquisition.

In connection with the acquisitions of certain European Andersen Business Consulting practices (primarily within France, Spain and Switzerland), the Company reduced its workforce by approximately 240 employees, in order to balance workforce capacity with market demand for services. Severance and termination benefits related to these workforce reductions totaling \$11,705 have been accounted for as part of the acquisitions. As of March 31, 2003, \$1,607 of the total liability has been paid.

### **Note 8. Notes Payable**

On August 21, 2002, the Company entered into a \$220,000 revolving credit facility for the purpose of funding a portion of the acquisition cost of BE Germany. On August 22, 2002, in connection with the closing of the BE Germany acquisition, the Company borrowed \$220,000 under the new facility. This credit facility was scheduled to mature on December 15, 2002 and was retired on November 26, 2002 (see Senior Notes described below).

On November 26, 2002, the Company completed a private placement of \$220,000 in aggregate principal of Senior Notes. The offering consisted of \$29,000 of 5.95% Series A Senior Notes due November 2005, \$46,000 of 6.43% Series B Senior Notes due November 2006 and \$145,000 of 6.71% Series C Senior Notes due November 2007. The Senior Notes restrict the Company's ability to incur additional indebtedness and require the Company to maintain certain levels of fixed charge coverage and net worth, while limiting its leverage ratio to certain levels. The proceeds from the sale of these Senior Notes were used to repay the \$220,000 short-term revolving credit facility described above.

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On December 16, 2002, a subsidiary of the Company expanded its yen-denominated line of credit facility to include a revolving line of credit facility to an aggregate principal balance not to exceed 1.85 billion yen (approximately \$15,670 as of March 31, 2003) and an overdraft line of credit facility to an aggregate principal balance not to exceed 0.5 billion yen (approximately \$4,235 as of March 31, 2003). Borrowings under the revolving line of credit facility accrue interest of TIBOR plus 0.90% and are used to finance working capital for the Company's Japanese operations. Borrowings under the overdraft line of credit facility accrue interest of TIBOR plus 1.30%. There are no covenants under the facilities, and they mature on August 30, 2003. At March 31, 2003, there were borrowings outstanding under the revolving line of credit facility and the overdraft line of credit facility of \$4,234 and \$1,168, respectively, which accrue interest at a rate of 0.97% and 1.38%, respectively.

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On January 31, 2003, a subsidiary of the Company entered into a new 2 billion yen-denominated term loan (approximately \$16,940 as of March 31, 2003). This term loan is in addition to the 2 billion yen-denominated line of credit described above. Borrowings under the term loan accrue interest at six month TIBOR plus 1.4% (1.49% as of March 31, 2003). Scheduled principal payments are every six months beginning July 31, 2003 through July 31, 2005 in the amount of 334 million yen and include a final payment of 330 million yen on January 31, 2006. The term loan is unsecured, does not contain financial covenants, and is not guaranteed by the Company.

### **Note 9. Derivative Instruments and Hedging Agreements**

The Company has borrowings outstanding under bank credit facilities, which carry variable interest rates (see Note 8). These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases.

During the second quarter of fiscal year 2003, the Company replaced its \$220,000 short-term revolving credit facility used to fund recent acquisitions with fixed rate debt. In anticipation of this refinancing, the Company entered into treasury rate locks on \$125,000 of five-year debt. The treasury locks are derivative instruments as defined by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and have been designated as highly effective cash flow hedges. On November 6, 2002, the treasury locks were settled resulting in a gain of \$787 which will be reclassified into interest expense over the term of the debt. The gain on the treasury locks converts fixed rate cash flows from 6.71% to approximately 6.56% on \$125,000 of the new debt.

The accumulated gain related to the treasury locks included in other comprehensive income as of March 31, 2003 was approximately \$734 of which approximately \$157 will be reclassified into interest expense over the next twelve months.

### **Note 10. Transactions with KPMG LLP**

In connection with winding down and terminating services provided by KPMG LLP under the transition services agreement, the Company is potentially liable for the payment of termination costs, as defined in the agreement, incurred by KPMG LLP, including transitioning personnel and contracts from KPMG LLP to our Company. During the quarter ended March 31, 2003, the Company terminated certain Human Resources services for which the Company has been charged \$1,050 in termination costs. As of March 31, 2003, there are no terminated services for which termination costs remain unknown.

Effective October 1, 2002, the Company and KPMG LLP entered into an Outsourcing Services Agreement under which KPMG LLP provides the Company certain services relating to office space. These services covered by the Outsourcing Services Agreement had previously been provided under the transition services agreement. The services will be provided for three years at a cost that is less than the cost for comparable services under the transition services agreement. Additionally, KPMG LLP agreed that for all services terminated as of December 31, 2002 under the transition services agreement, the Company will not be charged any termination costs in addition to the \$1,000 paid in fiscal year 2002, and that there will be no termination costs with respect to the office-related services at the end of the three year term of the Outsourcing Services Agreement.



During fiscal year 2003, the Company purchased \$32,429 of leasehold improvements from KPMG LLP at their net book value. These assets had been used by the Company under the transition services agreement (for which usage charges had been included in the monthly costs under the agreement) and will continue to be used in the business. Based on information currently available, the Company anticipates paying KPMG LLP an additional \$40,000 to \$60,000 for the sale and transfer of additional capital assets currently used by the Company through the transition services agreement.

**Table of Contents****Note 11. Capital Stock and Option Awards***Stock-Based Compensation*

Effective January 1, 2003, the Company has adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation and also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the methods of accounting for stock-based employee compensation and the effect of the method used on reported results.

As permitted under SFAS No. 148 and SFAS No. 123, the Company has elected to continue to apply the accounting provisions of Accounting Principles Board ( APB ) No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for stock-based awards issued to employees. Under APB No. 25, the Company generally recognizes no compensation expense with respect to stock-based awards issued to employees, as all options granted have an exercise price equal to the market value of the underlying common stock on the date of grant. With respect to restricted stock and other awards, compensation expense is measured based on the fair value of such awards as of the date of grant and charged to expense ratably over their respective vesting periods.

Pro forma information regarding net income and earnings per share is required by SFAS No. 148 and SFAS No. 123 assuming the Company had accounted for its stock-based awards to employees under the fair value method. Accordingly, reported net income and diluted earnings per share have been presented to reflect the impact had the Company been required to include the amortization of the estimated fair value of options and other stock awards as a charge to earnings over the awards' vesting period. The information presented for the three and nine months ended March 31, 2002 has been restated to reflect adjustments for option forfeitures and cancellations.

|   | Three Months Ended<br>March 31, |                                 | Nine Months Ended<br>March 31,  |                                   |
|---|---------------------------------|---------------------------------|---------------------------------|-----------------------------------|
|   | 2003                            | 2002                            | 2003                            | 2002                              |
| Net income (loss) applicable to common stockholders   | <i>as restated</i><br>\$ 4,141  | <i>as restated</i><br>\$ 23,748 | <i>as restated</i><br>\$ 31,001 | <i>as restated</i><br>\$ (27,302) |
| Add back:   |                                 |                                 |                                 |                                   |
| Total stock based compensation expense recorded under intrinsic value method for all stock awards, net of tax effects | 1,884                           | 275                             | 6,873                           | 826                               |
| Deduct:   |                                 |                                 |                                 |                                   |
| Total stock based compensation expense recorded under fair value method for all stock awards, net of tax effects      | (23,834)                        | (23,819)                        | (69,263)                        | (75,757)                          |
| Pro Forma net loss  | \$ (17,809)                     | \$ 204                          | \$ (31,389)                     | \$ (102,233)                      |
| Earnings (loss) per share:  |                                 |                                 |                                 |                                   |
| Basic as reported   | \$ 0.02                         | \$ 0.15                         | \$ 0.17                         | \$ (0.17)                         |
| Basic pro forma   | \$ (0.09)                       | \$                              | \$ (0.17)                       | \$ (0.65)                         |

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|                     |           |         |           |           |
|---------------------|-----------|---------|-----------|-----------|
| Diluted as reported | \$ 0.02   | \$ 0.15 | \$ 0.17   | \$ (0.17) |
| Diluted pro forma   | \$ (0.09) | \$      | \$ (0.17) | \$ (0.65) |

*Issuance of Options Under Tender Offer*

On September 3, 2002, in accordance with the February 1, 2002 tender offer relating to stock options with an exercise price of \$55.50, the Company issued 4,397,775 replacement options at an exercise price of \$11.01, which was 110% of the closing market price on that date.

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*Stock Awards*

In connection with the various Andersen Business Consulting acquisitions, the Company committed to issuing approximately 3,620,000 shares of common stock to former partners of those practices as a retentive measure and for no monetary consideration from such persons. The shares will be issued in equal one-third increments over a three-year period on the anniversary date of the respective transactions so long as the recipient remains employed by the Company. Compensation expense will be recorded ratably over the three-year period beginning in July 2002. Compensation expense for the three and nine months ended March 31, 2003 was \$2,765 and \$10,205, respectively.

*Employee Stock Purchase Plan*

The Company's Employee Stock Purchase Plan ( ESPP ) allows eligible employees to purchase shares of the Company's common stock, through accumulated payroll deductions, at 85% of the lesser of the fair market value of the common stock at the beginning of each twenty-four month offering period or the fair market value at the end of each six-month purchase period ending on July 31 and January 31, respectively. During the nine months ended March 31, 2003, employees purchased a total of 3,547,675 shares of common stock for \$27,557.

*Registration Statement*

On September 30, 2002, the Company filed with the SEC a registration statement on Form S-3 relating to the resale of 30,471,309 shares of the Company's common stock issued in connection with the closing of the BE Germany acquisition. The registration statement indicates that the Company will not be selling any of the shares covered by the registration statement and will not receive any of the proceeds from the sale of shares to the extent that any of the shares are sold by the selling shareholders. This registration statement became effective on October 18, 2002.

**Table of Contents****Note 12. Goodwill and Other Intangible Assets**

Effective July 1, 2001, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets, which established financial accounting and reporting for acquired goodwill and other intangible assets and superseded APB No. 17, Intangible Assets. Under SFAS No. 142, goodwill and indefinite-lived purchased intangible assets are no longer amortized but are reviewed at least annually for impairment; the Company has elected to perform this review annually as of April 1. Identifiable intangible assets that have finite lives continue to be amortized over their estimated useful lives.

In connection with adopting this standard as of July 1, 2001, the Company recognized a transitional impairment loss of \$79,960, or \$0.51 per basic and diluted earnings per share, as the cumulative effect of a change in accounting principle. There was no tax benefit recorded in connection with this change. The transitional impairment charge resulted from a change in the criteria for the measurement of the impairment loss.

Goodwill and other identifiable intangible assets consisted of the following at March 31, 2003 and June 30, 2002:

|                                | <b>March 31,<br/>2003</b> | <b>June 30,<br/>2002</b> |
|--------------------------------|---------------------------|--------------------------|
|                                | <i>as restated</i>        |                          |
| Internal-use software          | \$ 116,149                | \$ 77,033                |
| Purchased intangibles          | 67,028                    | 13,225                   |
| Marketed software              | 23,134                    | 16,915                   |
| Other                          | 2,612                     | 2,612                    |
| Total accumulated amortization | (88,006)                  | (34,133)                 |
| Other intangible assets, net   | 120,917                   | 75,652                   |
| Goodwill                       | 978,754                   | 87,663                   |
| <b>Total</b>                   | <b>\$ 1,099,671</b>       | <b>\$ 163,315</b>        |

Identifiable intangible assets include purchased or internally developed software and finite-lived purchased intangible assets, which primarily consist of market rights, backlog and software license rights. Identifiable intangible assets are amortized principally by the straight-line method over their expected period of benefit, which ranges from one to five years.

The changes in the carrying amount of goodwill for the nine months ended March 31, 2003 are as follows:

| <b>Balance<br/>June 30,<br/>2002</b> | <b>Additions</b> | <b>Other (a)</b> | <b>Balance<br/>March 31,<br/>2003</b> |
|--------------------------------------|------------------|------------------|---------------------------------------|
| _____                                | _____            | _____            | _____                                 |

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|                               |                   | <i>as restated</i> | <i>as restated</i> | <i>as restated</i> |
|-------------------------------|-------------------|--------------------|--------------------|--------------------|
| Public Services               | \$ 11,537         | \$ 12,049          | \$                 | \$ 23,586          |
| Communications & Content      | 8,509             | 15,854             |                    | 24,363             |
| Financial Services            | 2,871             | 6,342              |                    | 9,213              |
| Consumer & Industrial Markets | 8,283             | 24,098             |                    | 32,381             |
| High Technology               | 2,388             | 5,073              |                    | 7,461              |
| EMEA                          | 10,750            | 729,068            | 79,721             | 819,539            |
| Asia Pacific                  | 43,123            | 17,431             | 721                | 61,275             |
| Latin America                 |                   | 720                | 14                 | 734                |
| Corporate/other               | 202               |                    |                    | 202                |
|                               | <u>          </u> | <u>          </u>  | <u>          </u>  | <u>          </u>  |
| Total                         | \$ 87,663         | \$ 810,635         | \$ 80,456          | \$ 978,754         |
|                               | <u>          </u> | <u>          </u>  | <u>          </u>  | <u>          </u>  |

(a) Other changes in goodwill consist primarily of foreign currency translation adjustments primarily related to fluctuation in the Euro.

**Table of Contents****Note 13. Restructuring Charges**

During fiscal year 2003, the Company recorded restructuring charges totaling \$7,877 related to lease, facility and other exit activities, primarily in the United States, Germany, and Switzerland.

During the third quarter of fiscal year 2003, the Company recorded, as part of professional compensation expense, \$17,824 in charges for severance and termination benefits related to a worldwide reduction in workforce, primarily in the North American and Asia Pacific regions. The reduction in workforce affected approximately 570 employees and was the result of aligning the Company's workforce with market demand for services. All of the affected employees have been notified and terminated. As of March 31, 2003, the \$14,949 of the total liability has been disbursed.

The following table summarizes the restructuring activities for the nine months ended March 31, 2003 (including those activities accounted for as part of the acquisitions (see Note 7)).

|                                   | <b>Severance</b>   | <b>Lease and<br/>Facilities</b> | <b>Total</b>       |
|-----------------------------------|--------------------|---------------------------------|--------------------|
|                                   | <b>as restated</b> | <b>as restated</b>              | <b>as restated</b> |
| Balance at June 30, 2002          | \$ 1,162           | \$                              | \$ 1,162           |
| Acquisition related restructuring | 37,423             |                                 | 37,423             |
| Operating charges                 | 17,824             | 7,877                           | 25,701             |
| Payments                          | (31,850)           |                                 | (31,850)           |
| Other (a)                         | 2,347              | 83                              | 2,430              |
| <b>Balance at March 31, 2003</b>  | <b>\$ 26,906</b>   | <b>\$ 7,960</b>                 | <b>\$ 34,866</b>   |

(a) Other changes in restructuring accrual consist primarily of foreign currency translation adjustments.

The severance accrual is recorded within the balance sheet caption *Accrued payroll and employee benefits* and the lease and facilities accrual is primarily recorded within the balance sheet caption *Other current liabilities*. The remaining severance accrual is expected to be paid by the end of fiscal year 2004, and the remaining lease and facilities accrual will be paid over the remaining lease term.

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### **PART I, ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following information has been amended to reflect the restatements made to the Consolidated Condensed Financial Statements as further discussed in Note 2, Restatement of the Notes to Consolidated Condensed Financial Statements. This information should be read in conjunction with the information contained in the Consolidated Condensed Financial Statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q/A. This Quarterly Report on Form 10-Q/A contains forward-looking statements that involve risks and uncertainties. See the discussion relating to Forward-Looking Statements below.

#### **Company Overview**

BearingPoint, Inc. is a large business consulting, systems integration and managed services firms serving Global 2000 companies, medium-sized businesses, government agencies and other organizations. The Company provides business and technology strategy, systems design, architecture, applications implementation, network, systems integration and managed services. Our service offerings are designed to help our clients generate revenue, reduce costs and access the information necessary to operate their business on a timely basis.

#### *Seasonality*

Typically, client service hours, which drive revenue levels based on chargeable hours, are adversely affected during the first half of our fiscal year (especially the second quarter ended December 31) due to a large number of vacation days and holidays that fall during this period. As a result of this seasonality, the first and second quarters of the fiscal year are historically the lowest revenue generating and income producing quarters of the year.

#### *Segments*

BearingPoint delivers its consulting and systems integration services through five industry groups in which we possess significant industry-specific knowledge. These groups are Public Services, Communications & Content, Financial Services, Consumer and Industrial Markets and High Technology. In addition, as a result of our significant international acquisitions, we have established three new international reportable segments. Our focus on specific industries provides us with the ability to tailor our service offerings to reflect an understanding of the marketplaces in which our clients operate, enabling our clients to achieve their business objectives more quickly and efficiently.

We have existing multinational operations covering North America, Latin America, the Asia Pacific region, and Europe, the Middle East and Africa ( EMEA ). We utilize this multinational network to provide consistent services to our clients throughout the world. During the first quarter of fiscal year 2003, we significantly expanded our European presence with the purchase of KPMG Consulting AG (subsequently renamed BearingPoint GmbH ( BE Germany )), which included approximately 3,000 employees in Germany, Switzerland and Austria. We furthered our global strategy enabling us to better serve our multinational clients by acquiring all or portions of selected Andersen Business Consulting practices or their assets in the United States, Brazil, Finland, France, Japan, Norway, Peru, Singapore, South Korea, Spain, Sweden and Switzerland, and the consulting practice of the KPMG International member firm in Finland. In addition, we strengthened our Latin American business with the acquisition of Ernst & Young's Brazilian consulting practice.



*Critical Accounting Policies and Estimates*

The preparation of our financial statements in conformity with generally accepted accounting principles in the United States requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management's estimates and assumptions are derived and continually evaluated based on available information, reasonable judgment and the Company's experience. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates. Accounting policies and estimates that management believes are most critical to the Company's financial condition and operating results pertain to revenue recognition (including estimates of costs to complete engagements); valuation of accounts receivable; valuation of goodwill; and effective income tax rates.

*Revenue Recognition.* We earn revenue from a range of consulting services, including, but not limited to, business and technology strategy, systems design, architecture, applications implementation, network, systems integration and managed services. Revenue includes all amounts that are billed or billable to clients, including out-of-pocket costs such as travel and subsistence for client service professional staff, costs of hardware and software and costs of subcontractors (collectively referred to as other direct contract expenses). Unbilled revenues consist of recognized recoverable costs and accrued profits on contracts for which billings had not been presented to the clients as of the balance sheet date. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue recognition criteria are met.

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*Services:* We enter into long-term, fixed-price, time-and-materials, and cost-plus contracts to design, develop or modify multifaceted client-specific information technology systems. Such arrangements represent a significant portion of our business and are accounted for in accordance with AICPA Statement of Position ( SOP ) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Arrangements accounted for under SOP 81-1 must have a binding, legally enforceable contract in place before revenue can be recognized. Revenue under fixed-price contracts is generally recognized using the percentage-of-completion method based upon costs to the client incurred as a percentage of the total estimated costs to the client. Revenue under time-and-materials contracts is based on fixed billable rates for hours delivered plus reimbursable costs. Revenue under cost-plus contracts is recognized based upon reimbursable costs incurred plus estimated fees earned thereon.

We also enter into fixed-price and time-and-materials contracts to provide general business consulting services, including, but not limited to, systems selection or assessment, feasibility studies, and business valuation and corporate strategy services. Such arrangements are accounted for in accordance with Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. Revenue from such arrangements is recognized when : i) there is persuasive evidence of an arrangement, ii) the fee is fixed or determinable, iii) services have been rendered and payment has been contractually earned, and iv) collectibility of the related receivable or unbilled revenue is reasonably assured.

We periodically perform reviews of estimated revenue and costs on all of our contracts at an individual engagement level to assess if they are consistent with initial assumptions. Any changes to estimates are recognized on a cumulative catch-up basis in the period in which the change is identified. Losses on contracts are recognized when identified. Additionally, we enter into arrangements in which we manage, staff, maintain, host or otherwise run solutions and systems provided to the client. Revenue from these types of arrangements is typically recognized on a ratable basis as earned over the term of the service period.

*Software:* We enter into a limited number of software licensing arrangements. We recognize software license fee revenues in accordance with the provisions of AICPA Statement of Position 97-2, Software Revenue Recognition and its related interpretations. Our software licensing arrangements typically include multiple elements, such as software products, post-contract customer support, and consulting and training services. The aggregate arrangement fee is allocated to each of the undelivered elements based upon vendor-specific evidence of fair value ( VSOE ), with the residual of the arrangement fee allocated to the delivered elements. VSOE for each individual element is determined based upon prices charged to customers when these elements are sold separately. Fees allocated to each software element of the arrangement are recognized as revenue when the following criteria have been met: i) persuasive evidence of an arrangement exists, ii) delivery of the product has occurred, iii) the license fee is fixed or determinable, and iv) collectibility of the related receivable is reasonably assured. If evidence of fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract customer support are recognized as revenue ratably over the term of the support period. Fees allocated to other services are recognized as revenue as the services are performed. Revenue from monthly license charge or hosting arrangements is recognized on a subscription basis over the period in which the client uses the product.

*Multiple-Element Arrangements for Service Offerings:* In certain arrangements, we enter into contracts that include the delivery of a combination of two or more of our service offerings. Typically, such multiple-element arrangements incorporate the design, development or modification of systems and an ongoing obligation to manage, staff, maintain, host or otherwise run solutions and systems provided to the client. Such contracts are divided into separate units of accounting and the total arrangement fee is allocated to each unit based on its relative fair value. Revenue is recognized separately, and in accordance with our revenue recognition policy, for each element.

*Valuation of Accounts Receivable.* Periodically, we review accounts receivable to reassess our estimates of collectibility. We provide valuation reserves for bad debts based on specific identification of likely and probable losses. In addition, we provide valuation reserves for estimates of aged receivables that may be written off, based upon historical experience. These valuation reserves are periodically re-evaluated and adjusted as more information about the ultimate collectibility of accounts receivable becomes available. Circumstances that could cause our valuation reserves to increase include changes in our clients liquidity and credit quality, other factors negatively impacting our clients ability to pay their obligations as they come due, and the quality of our collection efforts.

*Valuation of Goodwill.* Effective July 1, 2001, the Company early-adopted the new accounting principle related to goodwill, Statement of Financial Accounting Standard ( SFAS ) No. 142, Goodwill and Other Intangible Assets. As a consequence, we recognized a transitional impairment loss of \$80.0 million, net of tax, (\$0.51 per share) as the cumulative effect of a change in accounting principle. This transitional impairment loss resulted from the change in method of measuring impairments from undiscounted cash flows to discounted cash flows. We review goodwill for impairment at least once annually as of April 1 and whenever events or significant changes in circumstances indicate that the carrying value may not be recoverable. An impairment would be indicated if the carrying value exceeds the fair value of a reporting unit.

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*Effective Income Tax Rates.* Determining effective income tax rates are highly dependent upon management estimates and judgments, particularly at each interim reporting date. Circumstances that could cause our estimates of effective income tax rates to change include restrictions on the use of the Company's foreign subsidiary losses to reduce the Company's tax burden; the preparation of our corporate income tax returns; the level of actual pre-tax income; and changes mandated as a result of audits by taxing authorities.

### *Significant Components of Our Statements of Operations*

*Revenue.* We derive substantially all of our revenue from professional service activities. Revenue includes all amounts that are billed or billable to clients, including out-of-pocket costs such as travel and subsistence for client service professional staff, costs of hardware and software and costs to subcontractors (collectively referred to as other direct contract expenses). Unbilled revenue represents revenue for services performed that have not been billed. Billings in excess of revenue recognized are recorded as deferred revenue until the applicable revenue recognition criteria are met. We recognize revenue when it is realized or realizable and earned. We consider revenue to be realized or realizable and earned when persuasive evidence of an arrangement exists, services have been rendered, fees are fixed or determinable and collection of revenue is reasonably assured. We generally enter into long-term, fixed-price, time-and-materials and cost plus contracts to design, develop or modify multifaceted client specific information technology systems. We generally recognize the majority of our revenue on a time-and-materials or percentage-of-completion basis as services are provided.

We enter into contracts with our clients that contain varying terms and conditions. These contracts generally provide that they can be terminated without significant advance notice or penalty. Generally, in the event that a client terminates a project, the client remains obligated to pay for services performed and expenses incurred by us through the date of termination.

*Professional Compensation.* Professional compensation consists of payroll and related benefits associated with client service professional staff (including costs associated with reductions in workforce).

*Other Direct Contract Expenses.* As indicated above, other direct contract expenses include costs directly attributable to client engagements. These costs include out-of-pocket costs such as travel and subsistence for client service professional staff, costs of hardware and software, and costs of subcontractors.

*Other Costs of Service.* Other costs of service primarily consist of the costs attributable to the support of the client service professional staff, bad debt expense relating to accounts receivable, as well as other indirect costs attributable to serving our client base. These costs include occupancy costs related to office space utilized by professional staff, depreciation and amortization costs related to assets used in revenue generating activities, the costs of training and recruiting professional staff, and costs associated with professional support personnel.

*Amortization of Purchased Intangible Assets.* Amortization of purchased intangible assets represents the amortization expense on identifiable intangible assets related to customer and market-related intangible assets which primarily resulted from the various acquisitions of businesses.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses include costs related to marketing, information systems, depreciation and amortization, finance and accounting, human resources, sales force, and other expenses related to managing and growing our business. During fiscal year 2003, selling, general and administrative expenses also include costs associated with our rebranding effort.

*Interest (Income) Expense, Net.* Interest expense reflects interest incurred on the Company's borrowings, including interest incurred on private placement senior notes, borrowings under a receivables purchase facility and borrowings under revolving lines of credit. Interest income represents interest earned on short-term investments of available cash and cash equivalents.

**Table of Contents****Industry Revenue**

We provide services through eight reportable segments. The following table provides unaudited financial information for each of those segments.

|  | Three Months Ended<br>March 31, |                   | Nine Months Ended<br>March 31, |                     |
|--|---------------------------------|-------------------|--------------------------------|---------------------|
|  | 2003                            | 2002              | 2003                           | 2002                |
|  | <i>as restated</i>              |                   | <i>as restated</i>             |                     |
| <b>Revenue:</b>                          |                                 |                   |                                |                     |
| Public Services                          | \$ 276,707                      | \$ 256,829        | \$ 811,591                     | \$ 712,170          |
| Communications & Content                 | 88,407                          | 115,371           | 275,448                        | 380,919             |
| Financial Services                       | 59,056                          | 47,218            | 175,859                        | 168,657             |
| Consumer & Industrial Markets            | 95,132                          | 69,041            | 291,182                        | 227,369             |
| High Technology                          | 41,701                          | 43,269            | 116,543                        | 155,979             |
| EMEA                                     | 157,607                         | 4,985             | 428,860                        | 14,556              |
| Asia Pacific                             | 83,990                          | 34,220            | 211,468                        | 89,834              |
| Latin America                            | 16,093                          | 10,129            | 47,460                         | 33,515              |
| Corporate/Other                          | 177                             | 1,243             | 731                            | 1,415               |
| <b>Total</b>                             | <b>\$ 818,870</b>               | <b>\$ 582,305</b> | <b>\$ 2,359,142</b>            | <b>\$ 1,784,414</b> |
|  | <i>as restated</i>              |                   | <i>as restated</i>             |                     |
| <b>Revenue as a percentage of total:</b> |                                 |                   |                                |                     |
| Public Services                          | 34%                             | 44%               | 34%                            | 40%                 |
| Communications & Content                 | 11                              | 20                | 12                             | 21                  |
| Financial Services                       | 7                               | 8                 | 8                              | 9                   |
| Consumer & Industrial Markets            | 12                              | 12                | 12                             | 13                  |
| High Technology                          | 5                               | 7                 | 5                              | 9                   |
| EMEA                                     | 19                              | 1                 | 18                             | 1                   |
| Asia Pacific                             | 10                              | 6                 | 9                              | 5                   |
| Latin America                            | 2                               | 2                 | 2                              | 2                   |
| Corporate/Other                          | n/m                             | n/m               | n/m                            | n/m                 |
| <b>Total</b>                             | <b>100%</b>                     | <b>100%</b>       | <b>100%</b>                    | <b>100%</b>         |

n/m = not meaningful

**HISTORICAL RESULTS OF OPERATIONS OVERVIEW**

The Company realized net income for the three months ended March 31, 2003 of \$4.1 million, or \$0.02 per share, compared to net income of \$23.7 million, or \$0.15 per share, for the three months ended March 31, 2002. Included in operating results for the quarter ended March 31, 2003, was a \$17.8 million charge (\$10.5 million net of tax) related to the Company's previously announced reduction in workforce. Excluding

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the effects of this charge, net income for the three months ended March 31, 2003 was relatively flat when compared to the three months ended March 31, 2002. The results for the three months ended March 31, 2003 reflect the positive impact from revenue growth and ongoing cost control initiatives, offset by additional expenses associated with the acquisitions and \$4.7 million in rebranding expenses.

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The Company realized net income for the nine months ended March 31, 2003 of \$31.0 million, or \$0.17 per share, compared to a net loss of \$27.3 million, or \$0.17 per share, for the nine months ended March 31, 2002. Included in the net loss for the nine months ended March 31, 2002 is a transitional impairment charge relating to the cumulative effect of a change in accounting principle of \$80.0 million (net of tax), or \$0.51 per share. Excluding this charge, net income before cumulative effect of change in accounting principle for the nine months ended March 31, 2002, was \$52.7 million, or \$0.33 per share, compared to \$31.0 million, or \$0.17 per share, for the same period in the current year. This year over year decrease is primarily the result of additional expenses associated with the acquisitions and \$26.5 million (\$15.6 million net of tax) of rebranding expenses, partially offset by revenue growth from acquisitions and ongoing cost control initiatives.



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**Table of Contents****Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002**

*Revenue.* Revenue increased \$236.6 million, or 40.6%, from revenue of \$582.3 million in the three months ended March 31, 2002, to \$818.9 million in the three months ended March 31, 2003. The increase in revenue was predominantly due to the impact of the acquisitions, offset partially by declines due to a lower average gross billing rate per hour for the quarter ended March 31, 2003 compared to the same quarter in the previous year. Average gross billing rates have declined due to continuous pricing pressures resulting from the challenging economic environment. Public Services, the Company's largest business unit, generated strong revenue growth of \$19.9 million, up 7.7%, while the Financial Services business unit generated revenue growth of \$11.8 million, or 25.1%, and the Consumer and Industrial Markets business unit experienced revenue growth of \$26.1 million, or 37.8%, as this business unit received the greatest revenue and resource impact from personnel hired from Andersen Business Consulting in the United States. Growth in the three aforementioned business units was offset by declines in the Communications & Content (\$27.0 million, or 23.4%) and High Technology (\$1.6 million, or 3.6%) business units. The uncertain economic environment has negatively impacted both business units, while the Communications & Content business unit was further impacted by the completion of several large contracts involving testing related to compliance with the 1996 Telecommunications Act.

Our acquisitions significantly expanded our international presence and diversified our revenue base. For the quarter ended March 31, 2003, North America generated 68.5% of consolidated revenue, while EMEA, Asia Pacific and Latin America contributed 19.2%, 10.3% and 2.0%, respectively. By comparison, for the third quarter of the prior fiscal year, North America contributed 91.3% of revenue, with EMEA, Asia Pacific and Latin America providing 1.0%, 5.9% and 1.7%, respectively. As a result, International revenue increased \$208.4 million from \$49.3 million for the three months ended March 31, 2002, to \$257.7 million for the three months ended March 31, 2003.

The Company expects this period of economic uncertainty may continue to impact revenue growth for at least another quarter with the most significant impact being in the Communications & Content business segment. However, when compared to the prior year, this is expected to be more than offset by the addition of revenue from the international acquisitions and other transactions.

*Gross Profit.* Gross profit as a percentage of revenue decreased to 21.3% from 28.1% for the three months ended March 31, 2003 and 2002, respectively. The decrease in gross margin as a percentage of revenue was primarily due to the \$17.8 million reduction in workforce charge recorded during the three months ended March 31, 2003 and an increase in professional compensation expense as a result of recent acquisitions due to the fact that the additional operations which were added had a higher percentage of professional compensation to revenue than the existing operations had in the same quarter of the prior fiscal year. In dollar terms, gross profit increased by \$11.1 million, or 6.8%, from \$163.5 million for the three months ended March 31, 2002, to \$174.6 million for the three months ended March 31, 2003. The increase in gross profit was due to an increase in revenue of \$236.6 million described above, partially offset by:

A net increase in professional compensation of \$155.5 million, or 69.3%, from \$224.2 million for the three months ended March 31, 2002, to \$379.7 million for the three months ended March 31, 2003. Included in professional compensation for the quarter ended March 31, 2003 was a \$17.8 million charge related to a reduction in workforce. Excluding the effects of this charge, the increase in professional compensation of \$137.7 million was predominantly due to the addition of approximately 7,000 billable employees through acquisitions (including a \$2.8 million non-cash charge relating to common stock awards made to our managing directors from the Andersen Business Consulting practices), offset partially by savings resulting from the reduction in staff associated with the Company's workforce actions taken in response to the challenging economy. Overall the Company's average billable headcount has increased 75.9% from approximately 7,900 in the third quarter of fiscal year 2002 to 13,900 in the current quarter.

A net increase in other direct contract expenses of \$49.3 million, or 34.4%, to \$192.6 million, representing 23.5% of gross revenue, compared to \$143.3 million, or 24.6% of revenue in the prior year's quarter. The \$49.3 million increase is primarily attributable to higher revenue while the improvement as a percentage of revenue is due to the Company's continued efforts to limit the use of subcontractors and travel expenses.



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A net increase in other costs of service of \$20.6 million, or 40.2%, from \$51.3 million for the three months ended March 31, 2002, to \$71.9 million in the current quarter. The increase in other costs of service was primarily due to acquisitions, partially offset by lower levels of bad debt expense and tighter controls on discretionary expenses.

*Amortization of Purchased Intangible Assets.* Amortization of purchased intangible assets increased \$11.4 million to \$12.4 million for the three months ended March 31, 2003 from \$1.0 million for the three months ended March 31, 2002. This increase in amortization expense relates primarily to \$45.7 million of backlog acquired as part of our recent acquisitions, which is being amortized over 12 to 15 months.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$141.5 million for the three months ended March 31, 2003 compared to \$113.0 million for the three months ended March 31, 2002, an increase of \$28.5 million, or 25.3%. This increase is primarily due to the impact of the various acquisitions and \$4.7 million in costs associated with the company's rebranding initiative, offset partially by reduced discretionary spending and current cost control initiatives. Selling, general and administrative expenses as a percentage of gross revenue improved to 17.3% compared to 19.4% for the three months ended March 31, 2003 and the three months ended March 31, 2002, respectively.

*Interest (Income) Expense, Net.* Interest (income) expense, net, increased \$4.9 million to \$4.6 million of net interest expense for the three months ended March 31, 2003. This increase in net interest expense is due to an increase in borrowings outstanding of \$316.7 million from \$7.0 million at March 31, 2002 to \$323.7 million at March 31, 2003. The increase in borrowings is primarily due to the Company's private placement of \$220.0 million in senior notes and increased borrowings under its other credit facilities. The Company has used the borrowings primarily to finance a portion of the cost of its international acquisitions.

*Income Tax Expense.* For the three month period ended March 31, 2003, the Company earned income before taxes of \$14.7 million and provided for income taxes of \$10.6 million resulting in an effective tax rate for the quarter of 71.9%. For the three months ended March 31, 2002, the Company earned income before taxes of \$49.5 million and provided for income taxes of \$25.7 million resulting in an effective tax rate for the quarter of 52.0%. The tax rates have been negatively impacted by the non-deductibility of losses associated with certain international operations and positively impacted by tax planning initiatives.

*Net Income (Loss).* For the three month period ended March 31, 2003, the Company realized net income of \$4.1 million, or \$0.02 per share. For the three months ended March 31, 2002, the Company realized net income of \$23.7 million, or \$0.15 per share. Net income increased due to additional revenue from the acquisitions and reduced discretionary spending and cost control initiatives. However, this increase was more than offset by increased professional compensation expense due to increased headcount associated with the acquisitions and the \$17.8 million charge related to a reduction in workforce recorded during the current quarter.

**Nine Months Ended March 31, 2003 Compared to Nine Months Ended March 31, 2002**

*Revenue.* Revenue increased \$574.7 million, or 32.2%, from \$1,784.4 million for the nine months ended March 31, 2002 to \$2,359.1 million for the nine months ended March 31, 2003. The overall increase in revenue is primarily attributable to the acquisitions, partially offset by revenue declines resulting from a lower average gross billing rate per hour for the nine months ended March 31, 2003 compared to the same period in the previous year. Average gross billing rates have declined due to continuous pricing pressures resulting from the challenging economic environment. Public Services, the Company's largest business unit, generated revenue growth of \$99.4 million, up 14.0% over the same period in the previous year, while the Consumer and Industrial Markets business unit generated revenue growth of \$63.8 million, or 28.1%, primarily as a result of the acquisitions and other transactions. Growth in the aforementioned business units was offset by revenue declines in the Communications & Content (\$105.5 million, or 27.7%) and High Technology (\$39.4 million, or 25.3%) business units. The uncertain economic

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environment has negatively impacted both business units, while the Communications & Content business unit was further impacted by the substantial completion of several large contracts involving testing related to compliance with the 1996 Telecommunications Act.

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Our acquisitions have significantly expanded our international presence and diversified our revenue base. For the nine months ended March 31, 2003, North America generated 70.8% of consolidated revenue, while EMEA, Asia Pacific and Latin America contributed 18.2%, 9.0% and 2.0%, respectively. By comparison, for the same period of the prior fiscal year, North America contributed 92.2% of revenue, with EMEA, Asia Pacific and Latin America providing 1.0%, 5.0% and 1.9%, respectively. As a result, International revenue increased \$549.9 million from \$137.9 million, or 7.7%, of consolidated revenue for the nine months ended March 31, 2002, to \$687.8 million, or 29.2%, of consolidated revenue for the nine months ended March 31, 2003.

*Gross Profit.* Gross profit as a percentage of revenue decreased to 23.0% compared to 25.8% for the nine months ended March 31, 2003 and 2002, respectively. This decrease is attributable to increased costs of service resulting from acquisitions and lower initial utilization rates for the former personnel of Andersen Business Consulting in the United States, offset in part by the Company's continued efforts to limit the use of subcontractors and travel expenses, as well as other ongoing cost control initiatives. In dollar terms, gross profit increased by \$82.6 million, or 17.9%, from \$460.4 million for the nine months ended March 31, 2002 to \$543.0 million for the nine months ended March 31, 2003. The increase in gross profit was due to an increase in revenue of \$574.7 million, partially offset by:

A net increase in professional compensation of \$351.7 million, or 49.0%, from \$717.0 million in the nine months ended March 31, 2002 to \$1,068.7 million in the nine months ended March 31, 2003. This increase is primarily related to the additional cost resulting from the addition of approximately 7,000 billable employees as a result of acquisitions occurring during the first quarter of fiscal year 2003, including \$9.5 million relating to common stock awards made to certain former partners of the Andersen Business Consulting practices. These increases are partially offset by savings achieved through the company's workforce actions that have occurred over the past 12 months in response to the challenging economy.

A net increase in other direct contract expenses of \$91.3 million, or 20.6%, from \$443.0 million, or 24.8% of revenue, for the nine months ended March 31, 2002 to \$534.3 million, or 22.6% of revenue, for the nine months ended March 31, 2003. The \$91.3 million increase in other direct contract expenses is attributable to higher revenue levels, while the improvement in other direct contract expenses as a percentage of revenue to 22.6% is due to the Company's continued efforts to limit the use of subcontractors and travel related expenses.

A net increase in other costs of service of \$49.2 million, or 30.0%, to \$213.2 million for the nine months ended March 31, 2003 from \$164.0 million for the nine months ended March 31, 2002. This increase is primarily due to acquisitions, partially offset by lower levels of bad debt expense and tighter controls on discretionary spending.

*Amortization of Purchased Intangible Assets.* Amortization of purchased intangible assets increased \$29.7 million to \$31.7 million for the nine months ended March 31, 2003 from \$2.0 million for the nine months ended March 31, 2002. This increase in amortization expense primarily relates to \$45.7 million of backlog acquired as part of our acquisitions, which is being amortized over 12 to 15 months.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses were \$425.1 million and \$346.2 million for the nine months ended March 31, 2003 and 2002, respectively, representing an increase of \$78.9 million, or 22.8%. This increase is principally due to the impact of the various acquisitions and \$26.5 million in costs associated with the company's rebranding initiative, offset partially by reduced discretionary spending and current cost control initiatives. Selling, general and administrative expenses as a percentage of revenue improved to 18.0% compared to 19.4% for the nine months ended March 31, 2003 and the 2002, respectively.

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*Interest (Income) Expense, Net.* Interest (income) expense, net, increased \$9.6 million to \$9.2 million of net interest expense from \$0.5 million of net interest income for the nine months ended March 31, 2003 and 2002, respectively. This increase in net interest expense is due to an increase in borrowings outstanding of \$316.7 million from \$7.0 million at March 31, 2002 to \$323.7 million at March 31, 2003. The increase in borrowings is primarily due to the company's borrowing of \$220.0 million in August 2002 under a short-term revolving credit facility which was retired in November 2002 upon the Company's completion of a private placement of \$220.0 million in senior notes. Additionally, the Company has increased borrowings under its other various credit facilities. The Company has used the borrowings primarily to finance a portion of the cost of its international acquisitions.

*Income Tax Expense.* For the nine month period ended March 31, 2003, the Company earned income before taxes of \$75.5 million and provided for income taxes of \$44.5 million resulting in an effective tax rate of 58.9%. For the nine months ended March 31, 2002, the Company earned income before taxes of \$111.8 million and provided for income taxes of \$59.1 million resulting in an effective tax rate of 52.9%. The tax rates have been negatively impacted by the non-deductibility of losses associated with certain international operations and positively impacted by tax planning initiatives.

*Cumulative Effect of Change in Accounting Principle.* The Company adopted SFAS No. 142 during the first fiscal quarter of the prior year (as of July 1, 2001). This standard eliminated goodwill amortization upon adoption and required an assessment for goodwill impairment upon adoption and at least annually thereafter. As a result of adoption of this standard, the Company no longer amortizes goodwill, and during the nine months ended March 31, 2002, incurred a non-cash transitional impairment charge of \$80.0 million (net of tax). This transitional impairment charge is a result of the change in accounting principle, which requires measuring impairments on a discounted versus an undiscounted cash flow basis.

*Net Income (Loss).* For the nine months ended March 31, 2003, the Company realized net income of \$31.0 million, or \$0.17 per share. For the nine months ended March 31, 2002, the Company realized a net loss of \$27.3 million, or \$0.17 per share, largely due to recording a transitional impairment charge as a result of a cumulative effect of a change in accounting principle. The per share amounts of net income (loss) were further affected by the issuance of approximately 30.5 million shares of common stock in August 2002 in conjunction with the acquisition of BE Germany.

**LIQUIDITY AND CAPITAL RESOURCES**

At March 31, 2003, the Company had a cash balance of 44.0 million, which has decreased \$159.6 million from June 30, 2002 predominantly due to funding various acquisitions around the globe. The Company has funded these transactions and operations through cash generated from operations, borrowings from existing credit facilities of \$103.7 million, the private placement of \$220.0 million in aggregate principal of Senior Notes and the issuance of 30.5 million shares of common stock valued at \$11.96 per share. The Company has borrowing arrangements available including a revolving credit facility with an outstanding balance of \$66.1 million at March 31, 2003 (not to exceed \$250 million), and an accounts receivable financing facility with an outstanding balance of \$15.0 million at March 31, 2003 (not to exceed \$150 million). The \$250 million revolving credit facility expires on May 29, 2005, and no borrowings under this facility are due until that time; however, management may choose to repay these borrowings at any time prior to that date. The accounts receivable purchase agreement permits sales of accounts receivable through May 23, 2003, subject to annual renewal. The accounts receivable purchase agreement is accounted for as a financing transaction; accordingly, it is not an off-balance sheet financing arrangement.

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In November 2002, the Company completed a private placement of \$220.0 million in aggregate principal of Senior Notes. The offering consisted of \$29.0 million of 5.95% Series A Senior Notes due November 2005, \$46.0 million of 6.43% Series B Senior Notes due November 2006, and \$145.0 million of 6.71% Series C Senior Notes due November 2007. The Senior Notes include affirmative, negative and financial covenants, including among others, covenants restricting the Company's ability to incur liens and indebtedness and purchase the Company's securities, and requiring the Company to maintain a minimum level of net worth (\$842.0 million as of March 31, 2003), maintain fixed charge coverage of at least 2.01 to 1.00 (as defined), and maintain a leverage ratio not to exceed 2.50 to 1.00 (as defined). We are in compliance with the financial ratios, covenants and other restrictions imposed by the Senior Notes. The Senior Notes contain customary events of default, including cross defaults to the company's revolving credit facility and receivables purchase facility. The proceeds from the sale of these Senior Notes were used to completely repay the company's short-term revolving credit facility of \$220.0 million, which was scheduled to mature on December 15, 2002.

The \$250 million revolving credit facility includes affirmative, negative and financial covenants, including, among others, covenants restricting the Company's ability to incur liens and indebtedness, purchase the Company's securities, and pay dividends and requiring the Company to maintain a minimum level of net worth (\$853.2 million as of March 31, 2003), maintain fixed charge coverage of at least 1.25 to 1.00 (as defined) and maintain a leverage ratio not to exceed 2.50 to 1.00 (as defined). We are in compliance with the financial ratios, covenants and other restrictions imposed by this credit facility. The credit facility contains customary events of default and a default (i) upon the acquisition by a person or group of beneficial ownership of 30% or more of the Company's common stock, or (ii) if within a period of six calendar months, a majority of the officers of the Company's executive committee cease to serve on its executive committee, and their terminations or departures materially affect the Company's business. The receivables purchase agreement contains covenants that are consistent with the Company's \$250 million revolving credit facility and cross defaults to the \$250 million revolving credit facility.

Under the transition services agreement with KPMG LLP (which generally terminates no later than February 8, 2004 for non-technology services and February 8, 2005 for technology-related services), the Company contracted to receive certain infrastructure support services from KPMG LLP until the Company completes the build-out of its own infrastructure. If the Company terminates services prior to the end of the term for such services, the Company may be obligated to pay KPMG LLP termination costs, as defined in the transition services agreement, incurred as a result of KPMG LLP winding down and terminating such services. KPMG LLP and the Company have agreed that during the term of the transition services agreement the parties will work together to minimize any termination costs (including transitioning personnel and contracts from KPMG LLP to our Company), and our Company will wind down its receipt of services from KPMG LLP and develop its own internal infrastructure and support capabilities or seek third party providers of such services. During the three months ended March 31, 2003, the Company terminated certain Human Resources services for which the Company has been charged \$1.1 million in termination costs. Effective October 1, 2002, the Company and KPMG LLP entered into an Outsourcing Services Agreement under which KPMG LLP provides certain services relating to office space that were previously provided under the transition services agreement. The services will be provided for three years at a cost that is less than the cost for comparable services under the transition services agreement. Additionally, KPMG LLP has agreed that for all services terminated as of December 31, 2002 under the transition services agreement the Company will not be charged any termination costs, in addition to the \$1.0 million paid in fiscal year 2002, and that there will be no termination costs with respect to the office-related services at the end of the three year term of the Outsourcing Services Agreement. At this time there are no terminated services for which termination costs remain unknown. The amount of termination costs that the Company will pay to KPMG LLP under the transition services agreement with respect to services that are terminated after March 31, 2003, cannot be reasonably estimated at this time. Whether the amount of termination costs yet to be assessed will not have a material effect on the Company's consolidated financial position, cash flows or liquidity in a particular quarter cannot be determined at this time.

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During fiscal year 2003, the Company purchased from KPMG LLP \$30.8 million of leasehold improvements. Based on information currently available, the Company anticipates paying KPMG LLP approximately \$40 million to \$60 million for the sale and transfer of additional capital assets (such as computer equipment, furniture and leasehold improvements). Currently the Company contracts for the use of such capital assets through the transition services agreement (for which usage charges are included in monthly costs under the agreement).

Cash provided by operating activities during the nine months ended March 31, 2003 was \$10.4 million, principally due to cash operating results of \$108.4 million (which consists of net income adjusted for the changes in deferred income taxes and other, stock awards and depreciation and amortization) partially offset by an increase in accounts receivable and unbilled revenue of \$84.9 million and prepaid expenses and other current assets of \$11.4 million. The increase in accounts receivable and unbilled revenue is primarily due to the timing of engagement billings, while the increase in prepaid expenses is primarily the result of insurance contract renewals.

Cash used in investing activities during the nine months ended March 31, 2003 was \$511.8 million, principally due to \$55.9 million in purchases of property and equipment (including \$32.4 million for the transfer of capital assets from KPMG LLP), \$33.2 million in purchases of other intangible assets primarily consisting of internal use software as part of our continued infrastructure build-out and \$422.8 million paid for acquisitions.

Cash provided by financing activities for the nine months ended March 31, 2003 was \$340.6 million, principally due to net proceeds from borrowings of \$312.9 million and \$27.7 million from the issuance of common stock primarily relating to the Company's employee stock purchase plan.

While the Company expects this period of economic uncertainty may continue to impact revenue growth for at least another quarter, we continue to actively manage client billings and collections and maintain tight controls over discretionary expenses. The Company believes that the cash provided from operations, borrowings available under the various existing credit facilities, and existing cash balances will be sufficient to meet working capital and capital expenditure needs for at least the next 12 months.

*Obligations and Commitments*

As of March 31, 2003, the Company had the following obligations and commitments to make future payments under contracts, contractual obligations and commercial commitments:

| Contractual Obligations        | Payment due by period |                  |            |            |               |
|--------------------------------|-----------------------|------------------|------------|------------|---------------|
|                                | Total                 | Less than 1 year | 1-3 years  | 4-5 years  | After 5 years |
| Long-term debt                 | \$ 297,685            | \$               | \$ 106,685 | \$ 191,000 | \$            |
| Operating leases               | 472,807               | 69,269           | 121,384    | 99,731     | 182,423       |
| Outsourcing services agreement | 29,825                | 12,950           | 16,875     |            |               |





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**RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In November 2002 the Emerging Issues Task Force ( EITF ) issued a final consensus on Issue 00-21, Accounting for Revenue Arrangements with Multiple Deliverables which addresses how to account for arrangements that may involve the delivery or performance of multiple products, services, and/or rights to use assets. Issue 00-21 is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. Companies may also elect to apply the provisions of Issue 00-21 to existing arrangements and record the income statement impact as the cumulative effect of a change in accounting principle. The Company currently intends to adopt Issue 00-21 prospectively for contracts beginning after June 30, 2003. The Company is currently evaluating Issue 00-21 to determine its impact, if any, on its results of operations and financial position.

Effective January 1, 2003, the Company adopted SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. The standard amends FASB 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation and amends disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to such compensation. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, thus the company continues to account for stock based compensation in accordance with APB No. 25, Accounting for Stock Awards to Employees. The Company has adopted the disclosure requirements of SFAS No. 148 and has made the required disclosures in its interim financial statements as of March 31, 2003, and will provide the required disclosures in its annual financial statements beginning as of June 30, 2003.

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements in this report constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These statements relate to our operations that are based on our current expectations, estimates and projections. Words such as may, will, could, would, should, anticipate, predict, potential, continue, expects, intends, plans, projects, believe, expressions are used to identify these forward-looking statements. These statements are only predictions and as such are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events or our future financial performance that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecast in these forward-looking statements. As a result, these statements speak only as of the date they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Our actual results may differ from the forward-looking statements for many reasons, including:

the business decisions of our clients regarding the use of our services;

the timing of projects and their termination;

the availability of talented professionals to provide our services;

the pace of technology change;

the strength of our joint marketing relationships;

the actions of our competitors; and

unexpected difficulties associated with our recent acquisitions involving BE Germany and the former Andersen Business Consulting practices.

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In addition, our results and forward-looking statements could be affected by general domestic and international economic and political conditions, including the current slowdown in the economy, uncertainty as to the future direction of the economy and vulnerability of the economy to domestic or international incidents, as well as market conditions in our industry. For a more detailed discussion of certain of these factors, see Exhibit 99.1 to this Form 10-Q/A. We caution the reader that the factors we have identified above may not be exhaustive. We operate in a continually changing business environment, and new factors that may affect our forward-looking statements emerge from time to time. Management cannot predict such new factors, nor can it assess the impact, if any, of such new factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those implied by any forward-looking statements.

### **PART I, ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

We are exposed to a number of market risks in the ordinary course of business. These risks, which include interest rate risk and foreign currency exchange risk, arise in the normal course of business rather than from trading activities.

Our exposure to changes in interest rates arises primarily because our indebtedness under our bank credit facilities carries variable interest rates. In anticipation of the Company's \$220.0 million private placement of Senior Notes, the Company entered into treasury rate locks on \$125 million of five-year debt. The settlement of the treasury locks in November 2002 resulted in a gain of \$0.8 million, which will convert fixed rate cash flows at 6.71% associated with \$125 million of the Series C Senior Notes to a fixed rate of approximately 6.56%.

Our exposure to changes in foreign currency rates primarily relates to net investment exposure, arising from acquisitions in and working capital advances provided to certain international operations, including risk from the recent acquisitions in Europe, Asia Pacific and Latin America.

### **PART I, ITEM 4. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

As of March 31, 2003, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, Chief Financial Officer, and General Counsel, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation and subsequent evaluations conducted in connection with the audit of the Company's consolidated financial statements for the year ended June 30, 2003, the Chief Executive Officer and Chief Financial Officer have concluded that, except as stated in the Introductory Note and as noted below under Changes in Internal Controls, the Company's disclosure controls and procedures are adequately designed to timely notify them of material information relating to the Company required to be disclosed in the Company's SEC filings.

#### **Changes in Internal Controls**

There has been no change in the Company's internal control over financial reporting that occurred during the third quarter of fiscal year 2003 and that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting. However, we intend to

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continue to refine our internal controls on an ongoing basis with a view towards continuous improvements. Management and PricewaterhouseCoopers LLP ( PwC ), our independent accountants, have reported to our Audit Committee certain matters involving internal controls that PwC considers to be material weaknesses or reportable conditions under standards established by the American Institute of Certified Public Accountants. The identified material weaknesses relate to financial review and analysis at the corporate/consolidation and certain local reporting levels, primarily with respect to the Germanic region. The identified reportable conditions relate to protocol and documentation for reviewing and assessing contract revenue recognition; monitoring of unusual Work in Process activity; lack of a formal documented policy relating to evidence of a contractual arrangement with respect to revenue recognition based on local legal requirements; cross-training of employees for key finance and accounting positions; and documentation for certain critical, significant and judgmental accounting areas.

These matters should be viewed in the context of the many special challenges for the Company in fiscal year 2003 that placed much greater demands on our accounting function. During the year, the Company significantly expanded its global presence by acquiring substantial consulting resources in 15 countries through a series of transactions totaling \$800 million. The transactions brought a variety of disparate accounting systems of varying quality, all of which had to be evaluated and integrated into the Company's systems. In addition, a new Chief Financial Officer was hired, and there was a change in the Corporate Controller.

In June 2003, PwC was retained as the new worldwide independent auditor for the Company. Fiscal year 2003 saw significant growth and acquisition activity by the Company, important changes in the Company's financial management and a new worldwide independent auditor that carefully reviewed all substantial transactions and other matters.

Given the material weaknesses and reportable conditions identified above, management devoted additional resources to resolving questions that arose during the year-end audit. As a result, management is confident that its consolidated financial statements for the quarter ended March 31, 2003 and the year ended June 30, 2003 fairly present, in all material respects, the financial condition and results of operation of the Company.

The material weaknesses and reportable conditions have been discussed in detail among management, our Audit Committee and PwC. We have assigned the highest priority to the correction of these material weaknesses and reportable conditions, and we are committed to addressing and resolving them fully. We have already taken several steps that address these matters. In July 2003, the Company implemented a new European financial accounting system and continues to develop and improve the Germanic consolidation and reporting process. In addition, a new Controller has been appointed for Europe with special responsibility for Germany and the other European practices. The Company also is scheduled to implement a new North American financial accounting system during the third quarter of fiscal year 2004. In connection with these initiatives, all finance-related policies and procedures are currently being updated and enhanced. Standard global documentation requirements have been established for the assessment of critical, significant and judgmental accounting areas, including the evaluation of contract revenue recognition for non-standard contracts. As part of the monthly closing process, analytical review procedures have been established at the local reporting levels as well as the consolidated level and will continue to be improved upon. As part of our fiscal 2004 goal setting process, all finance employees are required to achieve a minimum of 40 hours of training in various areas and disciplines. Also, in July 2003, the Company engaged Ernst & Young LLP to provide a global internal audit function.

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**PART II. OTHER INFORMATION**

**PART II, ITEM 1. LEGAL PROCEEDINGS**

We are from time to time the subject of lawsuits and other claims and regulatory proceedings arising in the ordinary course of our business. We do not expect that any of these matters, individually or in the aggregate, will have a material impact on our financial condition or results of operations.

**PART II, ITEM 2. NONE**

**PART II, ITEM 3. NONE**

**PART II, ITEM 4. NONE**

**PART II, ITEM 5. OTHER INFORMATION**

On February 6, 2003, the Company named Albert L. Lord to the board of directors. Mr. Lord, 57, has served as Vice Chairman and CEO of Reston, VA.-based Sallie Mae, (NYSE:SLM) the nation's leading provider of education funding, since 1997. Mr. Lord also serves on the boards of SS&C Technologies, Inc. (NASDAQ:SSNC) and The National Academy Foundation.

On April 29, 2003, the Company named J. Terry Strange, former Vice Chairman of KPMG LLP, to the board of directors. Mr. Strange, 59, a 34-year veteran of KPMG LLP and the professional services industry, led the firm's audit business and professional practice program.

**PART II, ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

- a) Exhibits Reference is made to the Exhibit Index.
- b) The Company filed two reports on Form 8-K during the period covered by this report. The Form 8-K that was filed on January 17, 2003 reported a reduction in workforce of 450 to 550 personnel primarily in North America and Asia Pacific. The Form 8-K that was filed on January 31, 2003 reported the announcement of the Company's financial results for the second quarter of fiscal year 2003.

**Exhibit Index**

**Exhibit**

| <u>No.</u> | <u>Description</u>   |
|------------|--|
| 10.1       | Amended and Restated 2002 Long-Term Incentive Plan dated April 22, 2003 (filed previously) |
| 31.1       | Certification of the Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a)       |
| 31.2       | Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a)       |
| 32.1       | Certification of the Chief Executive Officer Pursuant to Section 1350                      |
| 32.2       | Certification of the Chief Financial Officer Pursuant to Section 1350                      |
| 99.1       | Factors Affecting Future Financial Results (filed previously)                              |

