BEARINGPOINT INC
Form 10-Q/A
March 10, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

Amendment No. 1

x **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2004.**

¨ **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number 001-31451

BearingPoint, Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	**22-3680505**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
1676 International Drive, McLean, VA	**22102**
(Address of principal executive office)	**(Zip Code)**

(703) 747-3000

(Registrant s telephone number, including area code)

(Former name, if changed since last report)

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 x

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

The number of shares of common stock of the Registrant outstanding as of July 30, 2004 was 196,884,556.

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BEARINGPOINT, INC.

QUARTERLY REPORT ON FORM 10-Q/A

FOR THE QUARTER ENDED JUNE 30, 2004

INTRODUCTORY NOTE

Pursuant to Rule 12b-15 of the Rules and Regulations under the Securities Exchange Act of 1934, this report on Form 10-Q/A (this Amendment) amends the Quarterly Report on Form 10-Q of BearingPoint, Inc. (the Company) for the quarter ended June 30, 2004, as originally filed by the Company on August 9, 2004 (the Original Filing).

This Amendment is being filed to reflect a restatement of the Company s financial statements to correct accounting errors and departures from generally accepted accounting principles (GAAP). The following items have been amended as a result of the restatement:

(i) Part I, Item 1, Financial Statements, has been revised to restate certain amounts included in the Company s Consolidated Condensed Financial Statements for the three and six months ended June 30, 2004 and 2003 (see also Note 2, Restatement, of the Notes to Consolidated Condensed Financial Statements for discussion of significant changes);

(ii) Part I, Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, has been revised to reflect the restatement of the Company s Consolidated Condensed Financial Statements for the three and six months ended June 30, 2004 and 2003; and

(iii) Part I, Item 4, Controls and Procedures, has been revised to disclose certain matters identified in connection with the audit of the Company s consolidated financial statements for the year ended December 31, 2004.

In addition, Exhibit 99.1 (Factors Affecting Future Financial Results) to the Original Filing has been superseded by Exhibit 99.1 to the Company s Form 10-K for the fiscal year ended December 31, 2004 (the 2004 Form 10-K), filed on January 31, 2006. Accordingly, as reflected in the Exhibit Index, Exhibit 99.1 to the 2004 Form 10-K is incorporated by reference as Exhibit 99.1 to this Form 10-Q/A.

The circumstances necessitating the restatement and the effects of the restatement on the quarters ended June 30, 2004 and 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, and the Company has not updated the disclosures contained therein to reflect events that occurred at a later date, other than items relating to the restatement (see Note 2, Restatement, of the Notes to Consolidated Condensed Financial Statements), disclosure relating to controls and procedures, and Exhibit 99.1 (Factors Affecting Future Financial Results) to the Original Filing. Accordingly, this Amendment should be read in conjunction with the Company s filings (and any amendments thereto) made with the Securities and Exchange Commission subsequent to the filing of the Original Filing, including the 2004 Form 10-K.

The 2004 Form 10-K included (i) restated financial statements and related selected financial information for the six-month transition period ended December 31, 2003 and for the fiscal years ended June 30, 2003 and 2002 (unaudited), (ii) restated selected financial information for the fiscal year ended June 30, 2001, and the five-month period ended June 30, 2000, and (iii) restated selected financial information for the quarterly periods corresponding to the six-month transition period ended December 31, 2003 and to the fiscal years ended December 31, 2004 and June 30, 2003, to correct accounting errors and departures from GAAP in those periods.

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BEARINGPOINT, INC.

QUARTERLY REPORT ON FORM 10-Q/A

FOR THE QUARTER ENDED JUNE 30, 2004

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PART I, ITEM 1. FINANCIAL STATEMENTS

BEARINGPOINT, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 (as restated)	2003 (as restated)	2004 (as restated)	2003 (as restated)
Revenue	$ 875,387	$ 780,950	$ 1,763,990	$ 1,607,635
Costs of service:				
Professional compensation	371,746	356,414	750,186	738,100
Other direct contract expenses	254,737	189,852	548,979	391,265
Lease and facilities restructuring charges	8,364	9,249	11,699	15,018
Other costs of service	55,080	57,159	124,812	125,927
Total costs of service	689,927	612,674	1,435,676	1,270,310
Gross profit	185,460	168,276	328,314	337,325
Amortization of purchased intangible assets	1,003	13,245	2,098	25,648
Selling, general and administrative expenses	167,853	123,604	318,490	261,862
Operating income	16,604	31,427	7,726	49,815
Interest income	87	832	292	1,278
Interest expense	(4,033)	(5,009)	(8,442)	(9,792)
Other income (expense), net	(2,392)	676	(4,418)	1,436
Income (loss) before taxes	10,266	27,926	(4,842)	42,737
Income tax expense	32,684	17,730	34,586	29,650
Net income (loss)	$ (22,418)	$ 10,196	$ (39,428)	$ 13,087
Earnings (loss) per share basic and diluted	$ (0.11)	$ 0.05	$ (0.20)	$ 0.07
Weighted average shares basic	196,016,196	191,169,974	195,633,359	190,731,152
Weighted average shares diluted	196,016,196	191,537,354	195,633,359	190,885,268

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

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BEARINGPOINT, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

(unaudited)

	June 30, 2004 (as restated)	December 31, 2003 (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,115	$ 122,475
Accounts receivable, net	326,935	357,653
Unbilled revenue	500,376	315,431
Income tax receivable	29,942	22,942
Deferred income taxes	67,639	57,976
Prepaid expenses and other current assets	79,134	52,640
Total current assets	1,140,141	929,117
Property and equipment, net	193,202	199,517
Goodwill	963,256	991,347
Other intangible assets, net	5,233	8,156
Deferred income taxes, less current portion	71,548	59,568
Other assets	33,870	23,908
Total assets	$ 2,407,250	$ 2,211,613
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of notes payable	$ 47,228	$ 9,345
Accounts payable	402,353	232,577
Accrued payroll and employee benefits	226,381	217,965
Deferred revenue	63,381	74,378
Income tax payable	99,403	48,886
Current portion of accrued lease and facilities charge	24,177	22,048
Deferred income taxes	15,378	10,917
Other current liabilities	106,884	117,178
Total current liabilities	985,185	733,294
Notes payable, less current portion	230,054	238,883
Accrued employee benefits	65,025	62,821
Accrued lease and facilities charge, less current portion	33,383	33,850
Deferred income taxes, less current portion	6,733	11,073
Other liabilities	67,878	61,697
Total liabilities	1,388,258	1,141,618
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred Stock, $.01 par value 10,000,000 shares authorized		
	1,993	1,973

Common Stock, $.01 par value 1,000,000,000 shares authorized, 200,246,981 shares issued and 196,434,731 shares outstanding on June 30, 2004 and 198,295,364 shares issued and 194,483,114 shares outstanding on December 31, 2003		
Additional paid-in capital	1,124,959	1,105,631
Accumulated deficit	(255,758)	(216,330)
Notes receivable from stockholders	(9,013)	(9,114)
Accumulated other comprehensive income	192,538	223,562
Treasury stock, at cost (3,812,250 shares)	(35,727)	(35,727)
Total stockholders equity	1,018,992	1,069,995
Total liabilities and stockholders equity	$ 2,407,250	$ 2,211,613

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)

	Six Months Ended June 30,	
	2004 (as restated)	**2003 (as restated)**
Cash flows from operating activities:		
Net income (loss)	$ (39,428)	$ 13,087
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income taxes	(21,641)	(25,410)
Provision (benefit) for doubtful accounts	3,358	(3,156)
Stock awards	4,962	6,774
Depreciation and amortization of property and equipment	40,679	44,232
Amortization of purchased intangible assets	2,098	25,648
Lease and facilities restructuring charges	11,699	15,018
Other	2,596	(1,433)
Changes in assets and liabilities:		
Accounts receivable	22,303	21,764
Unbilled revenue	(187,782)	207
Income tax receivable, prepaid expenses and other current assets	(11,301)	(9,850)
Other assets	(9,708)	1,003
Accrued payroll and employee benefits	10,361	(20,131)
Accounts payable and other current liabilities	192,123	35,222
Other liabilities	3,631	4,508
Net cash provided by operating activities	23,950	107,483
Cash flows from investing activities:		
Purchases of property and equipment	(37,133)	(62,072)
Businesses acquired, net of cash acquired		(4,365)
Net cash used in investing activities	(37,133)	(66,437)
Cash flows from financing activities:		
Proceeds from issuance of common stock	13,365	14,459
Proceeds from notes payable	352,680	712,103
Repayment of notes payable	(323,255)	(727,779)
Payments on notes receivable from stockholders	102	95
Decrease in book overdrafts	(13,964)	(3,436)
Net cash provided by (used in) financing activities	28,928	(4,558)
Effect of exchange rate changes on cash and cash equivalents	(2,105)	1,834
Net increase in cash and cash equivalents	13,640	38,322
Cash and cash equivalents beginning of period	122,475	83,468

Cash and cash equivalents end of period	$ 136,115	$ 121,790

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. (referred to below as we, our, BearingPoint or the Company) 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 (GAAP), and should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2004, included in the Company s Annual Report on Form 10-K filed with the SEC on January 31, 2006. 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 six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for any other interim period or the entire fiscal year.

The interim consolidated condensed financial statements reflect the operations of the Company and all of its majority-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. Prior to calendar year 2004, certain of the Company s consolidated foreign subsidiaries within the Europe, Middle East and Africa (EMEA), Asia Pacific and Latin America regions reported their results on a one-month lag, which allowed additional time to compile results. During the first quarter of 2004, the Company recorded a change in accounting principle resulting from certain Asia Pacific operations now reporting on a current period basis. The purpose of the change is to have these certain foreign subsidiaries report on a basis that is consistent with the Company s fiscal reporting period. As a result, net loss for the six months ended June 30, 2004 includes a cumulative effect of a change in accounting principle of $529, which represents the December 2003 loss for these entities. This amount is included in other income (expense), net in the interim consolidated condensed statement of operations for the six months ended June 30, 2004 due to the immateriality of the effect of the change in accounting principle to consolidated net loss. Certain of the Company s consolidated foreign subsidiaries within EMEA continue to report their results of operations on a one-month lag.

Note 2. Restatement

As previously reported in the Company s Form 10-K for the year ended December 31, 2004 filed with the SEC on January 31, 2006, the Company restated its previously filed consolidated balance sheet at December 31, 2003, and consolidated statements of operations, cash flows, and changes in stockholders equity for the six-month period ended December 31, 2003 and for the fiscal years ended June 30, 2003 and 2002 (unaudited) to correct accounting errors and departures from GAAP in those periods. In addition, the restatement also impacted the previously issued consolidated condensed financial statements for the quarterly periods during the year ended December 31, 2004 and the corresponding quarterly periods during the six months ended December 31, 2003 and the fiscal year ended June 30, 2003. Accordingly, the Company restated its previously filed consolidated condensed balance sheets, interim consolidated condensed statements of operations, and consolidated condensed statements of cash flows for quarterly periods during the years ended December 31, 2004 and 2003.

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

The Company has categorized the restatement adjustments into nine categories. Each category is defined briefly below:

Accounting for Customer Contracts

During its close procedures for the year ended December 31, 2004, the Company performed an extensive review of substantially all of its contractual arrangements with its customers in North America to ensure that recorded amounts for the year ended December 31, 2004 have been properly stated. As a result of this extensive review, the Company identified errors related to previously recorded revenue, other direct contract expenses, unbilled revenue, deferred revenue and accounts receivable. Consequently, the Company has recorded corrections to properly account for revenue, other direct contract expenses, unbilled revenue, deferred revenue and accounts receivable for all of the errors and adjustments discussed below. These errors include the following:

- Misapplication of GAAP in accounting for contractual arrangements as it pertains to Statement of Position (SOP) 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, Emerging Issues Task Force Issue (EITF) 00-21, Accounting for Revenue Arrangements with Multiple Deliverables, and Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. For example, for a specific service line the Company inappropriately recorded revenue on its contracts as services were delivered to the clients. Based upon the specific contracts for these engagements, revenue should have been recorded only when the services had been fully delivered to the client;

- Inaccurate accumulation of contract costs, such as engagement subcontractor costs;

- Inaccurate client contractual hourly bill rates entered in the project accounting system;

- Improper classification of amounts between accounts receivable and unbilled revenue as a result of invoices issued outside of the project accounting system; and

- Inaccurate recording of revenue related to time-and-materials contracts under the Company s previous project accounting system. The Company s project accounting system prior to April 1, 2004 had limitations on how revenue was recognized for time and materials contracts. As a result, we recorded adjustments to revenue in prior periods in order to report revenue accurately.

The financial impact of restatement adjustments related to the timing of subcontractor expenses is included below in the restatement adjustments related to Adjustments for Accounts Payable, Accrued Expenses and Expense Cut-off. On April 1, 2004, the Company implemented a new project accounting system for its operations in North America for which the Company implemented insufficient internal controls and which contributed to certain of the errors discussed above.

The Company also has identified errors in accounting for customer contracts in certain of its international operations (in addition to the revenue recognition errors related to Australia described below). These errors primarily relate to:

Inaccuracies in accumulating estimated total contract costs for certain contracts. This resulted in improper recognition of revenue under the percentage-of-completion method of accounting; and

Improper recognition of revenue that could not be billed based upon the underlying contractual support.

Revenue Recognition Related to Australia

The Company identified that there was a significant amount of unrecoverable accounts receivable and unbilled revenue on the balance sheet of its Australian subsidiary. These amounts had been outstanding for a

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

significant period of time but did not appear as past due in the Company s records due to a number of improper actions by a senior person of its Australian subsidiary to characterize these amounts as current. Separately, the Company also identified an additional significant amount of unrecoverable unbilled revenue on a major contract with a client in Australia. Upon further review and investigation, the Company determined that the unbilled revenue was inappropriately accounted for, as there was no contractual documentation to support the recording of a portion of the related revenue. In addition, the Company determined that the percentage-of-completion amounts utilized to record revenue amounts for prior periods were incorrectly calculated.

Consequently, the Company has recorded corrections to properly account for revenue, other direct contract expenses, unbilled revenue and accounts receivable for all of the errors and adjustments discussed above.

Intercompany Loan Classifications

Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation, requires that foreign exchange gains and losses resulting from the translation of intercompany loans be accounted for based on the characterization of the intercompany loan as current or long-term. Translation gains and losses for short-term intercompany loans are recognized as a charge or credit to other income (expense), net, in the statement of operations. Translation gains or losses on long-term intercompany loans are recognized as a component of accumulated other comprehensive income on the balance sheet. Management s intent relative to the timing of repayment of these intercompany loans determines the classification between long and short-term. While certain of the intercompany loans were repaid or are planned to be repaid, the Company had inappropriately considered all intercompany loans to be long-term. Accordingly, the Company analyzed historical intercompany loans for all periods presented to determine the appropriate characterization of these loans between short and long-term based on past repayments and planned future payments.

Accounting for Leases and Facilities Charges

Certain of the Company s lease contracts contain rent holidays, escalation clauses, landlord/tenant incentives and asset retirement obligations, which the Company did not account for in accordance with GAAP. In particular, (i) the Company recorded rent expense for certain operating leases on a cash basis, without consideration for rent holidays or escalations; (ii) the Company did not appropriately record or amortize landlord/tenant incentives, and in some cases, netted reimbursements with leasehold improvement assets; (iii) the Company did not properly record or amortize leasehold improvements over the appropriate periods, and in some cases, inappropriately amortized leasehold improvements over terms that included assumptions of lease renewals; and (iv) the Company did not completely or accurately record asset retirement obligations related to leasehold improvement assets. These errors also impacted amounts previously recorded in connection with the Company s lease and facilities restructuring charges. Accordingly, the Company has recorded adjustments to correct the errors identified in its application of GAAP as it pertains to the accounting for lease-related expenses.

Accounting for Employee Global Mobility and Tax Equalization

The Company has a tax equalization policy designed to ensure its employees on domestic long-term and foreign assignments will be subject to the same level of personal tax regardless of the tax jurisdiction in which the employee works. The Company failed to identify a significant number of employees who were subject to the tax equalization plan, did not properly calculate and withhold required taxes on behalf of its qualifying employees and used the cash basis of accounting, rather than the accrual basis, for recognition of the tax equalization expense. Accordingly, the Company has recorded adjustments to correct the errors identified above as it pertains to the accounting for employee global mobility and tax equalization.

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

Accounting for Property and Equipment

The Company corrected certain errors involving the accounting for its property and equipment. These errors included (i) incorrect calculations of depreciation and amortization expense for certain property and equipment; (ii) incorrect useful lives in calculating depreciation and amortization expense; (iii) inappropriate categorization of assets and associated depreciation expense; (iv) errors in the calculation and timing of asset disposals; and (v) lack of adherence to the Company s capitalization policy relating to property and equipment. In addition, these errors also impacted amounts previously recorded in connection with office closings relating to the Company s lease and facilities restructuring efforts.

Adjustments for Accounts Payable, Accrued Expenses and Expense Cut-off

The Company did not record accounts payable and accrued expenses in the proper period and misstated certain accruals.

Accounting for Income Taxes

The Company identified and corrected certain errors involving the recording of income taxes. These errors included (i) errors in the calculation of deferred tax assets and liabilities; (ii) errors in determining the timing and amounts of permanent differences between financial reporting income and taxable income; (iii) incorrect calculation and recording of foreign taxes including foreign tax reserves, foreign acquired tax contingencies and foreign debt recapitalizations; (iv) errors in failing to correctly record withholding taxes on interest payable on intercompany loans; and (v) errors in failing to correctly record withholding taxes on intercompany trade payables between various jurisdictions.

Other Adjustments

The Company corrected other miscellaneous items identified as part of the restatement, none of which are individually significant to the Company s consolidated condensed financial position, results of operations or cash flows.

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

The following table summarizes the impact of all restatement adjustments on previously reported net income (loss), basic and diluted earnings (loss) per share for the three and six months ended June 30, 2004 and 2003.

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Net income as previously reported	$ 15,181	$ 10,306	$ 16,805	$ 14,447
Restatement adjustments (pretax):				
Accounting for customer contracts	(9,649)	(51)	(16,045)	(1,588)
Revenue recognition related to Australia	(1,673)	(1,164)	(1,550)	(1,228)
Intercompany loan classifications	(1,743)	1,894	(2,671)	2,126
Accounting for lease and facilities charges	(865)	29	(1,358)	(456)
Accounting for employee global mobility and tax equalization	(6,366)	(5,483)	(11,618)	(6,900)
Accounting for property and equipment	(1,817)	394	(3,256)	336
Adjustments for accounts payable, accrued expenses and expense cut-off	(2,239)	7,643	(13,358)	10,629
Other adjustments	(391)	1,114	483	1,556
Total net restatement adjustments (pre-tax)	(24,743)	4,376	(49,373)	4,475
Tax effect of restatement adjustments above	9,089	(952)	17,935	(1,317)
Errors related to accounting for income taxes	(21,945)	(3,534)	(24,795)	(4,518)
Total taxes	(12,856)	(4,486)	(6,860)	(5,835)
Total net restatements adjustments	(37,599)	(110)	(56,233)	(1,360)
Net income (loss) as restated	$ (22,418)	$ 10,196	$ (39,428)	$ 13,087
Earnings (loss) per share basic:				
Basic earnings per share as originally reported	$ 0.08	$ 0.05	$ 0.09	$ 0.08
Effect of net adjustments	(0.19)	(0.00)	(0.29)	(0.01)
Basic earnings (loss) per share as restated	$ (0.11)	$ 0.05	$ (0.20)	$ 0.07
Earnings (loss) per share diluted:				
Diluted earnings per share as originally reported	$ 0.08	$ 0.05	$ 0.08	$ 0.08
Effect of net adjustments	(0.19)	(0.00)	(0.28)	(0.01)
Diluted earnings (loss) per share as restated	$ (0.11)	$ 0.05	$ (0.20)	$ 0.07

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

The following tables outline the effects of the aforementioned restatement adjustments on the Company s originally issued consolidated condensed statements of operations for the three and six months ended June 30, 2004 and 2003 and the consolidated condensed balance sheet at June 30, 2004:

	Three Months Ended June 30, 2004			Three Months Ended June 30, 2003		
	As Reported	Effect of Restatement	As Restated	As Reported	Effect of Restatement	As Restated
Revenue	$ 885,500	$ (10,113)	$ 875,387	$ 780,135	$ 815	$ 780,950
Cost of Service:						
Professional compensation	367,445	4,301	371,746	354,000	2,414	356,414
Other direct contract expenses	253,301	1,436	254,737	186,956	2,896	189,852
Lease and facilities restructuring charges	8,379	(15)	8,364	9,715	(466)	9,249
Other costs of service	63,733	(8,653)	55,080	57,175	(16)	57,159
Total costs of service	692,858	(2,931)	689,927	607,846	4,828	612,674
Gross profit	192,642	(7,182)	185,460	172,289	(4,013)	168,276
Amortization of purchased intangible assets	1,003		1,003	12,972	273	13,245
Selling, general and administrative expenses	151,856	15,997	167,853	130,990	(7,386)	123,604
Operating income (loss)	39,783	(23,179)	16,604	28,327	3,100	31,427
Interest/other income (expense), net	(4,774)	(1,564)	(6,338)	(4,777)	1,276	(3,501)
Income (loss) before taxes	35,009	(24,743)	10,266	23,550	4,376	27,926
Income tax expense	19,828	12,856	32,684	13,244	4,486	17,730
Net income (loss)	$ 15,181	$ (37,599)	$ (22,418)	$ 10,306	$ (110)	$ 10,196
Income (loss) per share basic	$ 0.08	$ (0.19)	$ (0.11)	$ 0.05	$ (0.00)	$ 0.05
Income (loss) per share diluted	$ 0.08	$ (0.19)	$ (0.11)	$ 0.05	$ (0.00)	$ 0.05
Weighted average shares basic	196,016,196		196,016,196	191,169,974		191,169,974
Weighted average shares diluted	198,710,662		196,016,196	191,537,354		191,537,354

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

	Six Months Ended June 30, 2004			Six Months Ended June 30, 2003		
	As Reported	Effect of Restatement	As Restated	As Reported	Effect of Restatement	As Restated
Revenue	$ 1,746,541	$ 17,449	$ 1,763,990	$ 1,599,005	$ 8,630	$ 1,607,635
Cost of Service:						
Professional compensation	743,187	6,999	750,186	733,682	4,418	738,100
Other direct contract expenses	514,040	34,939	548,979	379,554	11,711	391,265
Lease and facilities restructuring charges	11,951	(252)	11,699	15,327	(309)	15,018
Other costs of service	130,691	(5,879)	124,812	123,505	2,422	125,927
Total costs of service	1,399,869	35,807	1,435,676	1,252,068	18,242	1,270,310
Gross profit	346,672	(18,358)	328,314	346,937	(9,612)	337,325
Amortization of purchased intangible assets	2,098		2,098	25,368	280	25,648
Selling, general and administrative expenses	289,786	28,704	318,490	272,516	(10,654)	261,862
Operating income (loss)	54,788	(47,062)	7,726	49,053	762	49,815
Interest/other income (expense), net	(10,257)	(2,311)	(12,568)	(10,791)	3,713	(7,078)
Income (loss) before taxes	44,531	(49,373)	(4,842)	38,262	4,475	42,737
Income tax expense	27,726	6,860	34,586	23,815	5,835	29,650
Net income (loss)	$ 16,805	$ (56,233)	$ (39,428)	$ 14,447	$ (1,360)	$ 13,087
Income (loss) per share basic	$ 0.09	$ (0.29)	$ (0.20)	$ 0.08	$ (0.01)	$ 0.07
Income (loss) per share diluted	$ 0.08	$ (0.28)	$ (0.20)	$ 0.08	$ (0.01)	$ 0.07
Weighted average shares basic	195,633,359		195,633,359	190,731,152		190,731,152
Weighted average shares diluted	198,867,496		195,633,359	190,885,268		190,885,268

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(unaudited)

	As of June 30, 2004		
	As Reported	Effect of Restatement	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	$ 139,272	$ (3,157)	$ 136,115
Accounts receivable, net	326,741	194	326,935
Unbilled revenue	453,988	46,388	500,376
Income tax receivable		29,942	29,942
Deferred income taxes	43,121	24,518	67,639
Prepaid expenses and other current assets	74,739	4,395	79,134
Total current assets	1,037,861	102,280	1,140,141
Property and equipment, net	200,221	(7,019)	193,202
Goodwill	949,242	14,014	963,256
Other intangible assets, net	5,233		5,233
Deferred income taxes, less current portion	67,304	4,244	71,548
Other assets	23,501	10,369	33,870
Total assets	$ 2,283,362	$ 123,888	$ 2,407,250
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current portion of notes payable	$ 47,228	$	$ 47,228
Accounts payable	312,767	89,586	402,353
Accrued payroll and employee benefits	169,387	56,994	226,381
Deferred revenue	59,125	4,256	63,381
Income tax payable	46,089	53,314	99,403
Current portion of accrued lease and facilities charge	24,316	(139)	24,177
Deferred income taxes	11,104	4,274	15,378
Other current liabilities	119,989	(13,105)	106,884
Total current liabilities	790,005	195,180	985,185
Notes payable, less current portion	230,054		230,054
Accrued employee benefits	65,025		65,025
Accrued lease and facilities charge, less current portion	31,918	1,465	33,383
Deferred income taxes, less current portion	6,205	528	6,733
Other liabilities	30,746	37,132	67,878
Total liabilities	1,153,953	234,305	1,388,258
Stockholders equity:			
Preferred Stock, $.01 par value 10,000,000 shares authorized			
Common Stock, $.01 par value 1,000,000,000 shares authorized	1,993		1,993
Additional paid-in capital	1,124,959		1,124,959
Accumulated deficit	(140,999)	(114,759)	(255,758)

Notes receivable from stockholders	(9,013)		(9,013)
Accumulated other comprehensive income	188,196	4,342	192,538
Treasury stock, at cost (3,812,250 shares)	(35,727)		(35,727)
Total stockholders equity	1,129,409	(110,417)	1,018,992
Total liabilities and stockholders equity	$ 2,283,362	$ 123,888	$ 2,407,250

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Note 3. Stock-Based Compensation

The Company has several stock-based employee compensation plans. The Company accounts for stock-based compensation awards issued to employees by applying the intrinsic value method, whereby the difference between the quoted market price as of the date of grant and the contractual purchase price of the award is charged to operations over the vesting period. The Company generally recognizes no compensation expense with respect to option awards issued to employees, as all options granted under the Company s stock-based compensation plans have exercise prices equal to the market value of the Company s 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 grant date and charged to expense using the straight-line method over the period of restriction or vesting period.

Pro forma information regarding net income (loss) and earnings (loss) per share is required assuming the Company had accounted for its stock-based awards issued to employees under the fair value method and amortized as a charge to earnings over the awards vesting period. The weighted average fair value of stock options granted during the three months ended June 30, 2004 and 2003 were $5.81 and $5.42, respectively. The weighted average fair value of stock options granted during the six months ended June 30, 2004 and 2003 were $6.24 and $5.23, respectively. The fair value of options granted was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Stock Price Expected Volatility	Risk-Free Interest Rate	Expected Life	Expected Dividend Yield
Three months ended June 30, 2004	64.27%	3.95%	6	
Three months ended June 30, 2003	70.76%	2.57%	6	
Six months ended June 30, 2004	65.29%	3.61%	6	
Six months ended June 30, 2003	71.38%	2.74%	6	

The fair value of the Company s common stock purchased under the Employee Stock Purchase Plan (ESPP) was estimated for the three months and six months ended June 30, 2004 and 2003 using the Black-Scholes option-pricing model and an expected volatility of 70.0%, risk-free interest rates ranging from 1.03% to 4.77%, an expected life ranging from six to eighteen months and an expected dividend yield of zero. The weighted average fair value of share purchase rights under the ESPP was $3.84 and $2.74 for the three months ended June 30, 2004 and 2003, respectively. The weighted average fair value of share purchase rights under the ESPP was $3.59 and $4.88 for the six months ended June 30, 2004 and 2003, respectively.

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The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value method for the three months and six months ended June 30, 2004 and 2003:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 (as restated)	2003 (as restated)	2004 (as restated)	2003 (as restated)
Net income (loss)	$ (22,418)	$ 10,196	$ (39,428)	$ 13,087
Add back:				
Total stock based compensation expense recorded under intrinsic value method for all stock awards, net of tax effects	945	2,128	2,935	4,007
Deduct:				
Total stock based compensation expense recorded under fair value method for all stock awards, net of tax effects	(20,662)	(25,029)	(44,045)	(48,858)
Pro forma net loss	$ (42,135)	$ (12,705)	$ (80,538)	$ (31,764)
Earnings (loss) per share:				
Basic as reported	$ (0.11)	$ 0.05	$ (0.20)	$ 0.07
Basic pro forma	$ (0.21)	$ (0.07)	$ (0.41)	$ (0.17)
Diluted as reported	$ (0.11)	$ 0.05	$ (0.20)	$ 0.07
Diluted pro forma	$ (0.21)	$ (0.07)	$ (0.41)	$ (0.17)

Note 4. Stock Awards and Employee Stock Purchase Plan

In connection with the purchase business acquisitions (as defined under U.S. GAAP and referred to in this Form 10-Q/A as acquisitions) relating to all or portions of certain Andersen Business Consulting practices, the Company committed to the issuance of approximately 3,000,000 shares of its common stock (net of forfeitures) to former partners of those practices as a retentive measure. The stock awards have no purchase price and are issued as to one-third of the shares on the first three anniversaries of the acquisition of the relevant consulting practice, so long as the recipient remains employed by the Company. Compensation expense is being recorded ratably over the three-year service period beginning in July 2002. Compensation expense was $2,276 and $3,327 for the three months ended June 30, 2004 and 2003, respectively. Compensation expense was $4,263 and $6,091 for the six months ended June 30, 2004 and 2003, respectively. As of June 30, 2004, 1,243,387 shares of common stock have been issued.

The Company s ESPP allows eligible employees to purchase shares of the Company s common stock at a discount, through accumulated payroll deductions of 1% to 15% of their compensation, up to a maximum of $25. Under the ESPP, shares of the Company s common stock are purchased at 85% of the lesser of the fair market value at the beginning of the twenty-four month offering period, the fair market value at the beginning of each six-month purchase 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 six months ended June 30, 2004, employees purchased a total of 1,842,894 shares for $12,502.

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

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Note 5. Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings (loss) 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 (loss) per share, the dilutive effect of stock options is computed using the average market price for the period in accordance with the treasury stock method.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 (as restated)	2003 (as restated)	2004 (as restated)	2003 (as restated)
Net income (loss)	$ (22,418)	$ 10,196	$ (39,428)	$ 13,087
Weighted average shares outstanding basic	196,016,196	191,169,974	195,633,359	190,731,152
Employee stock options		338,127		154,116
Stock awards		29,253		
Weighted average shares outstanding diluted	196,016,196	191,537,354	195,633,359	190,885,268
Earnings (loss) per share basic and diluted	$ (0.11)	$ 0.05	$ (0.20)	$ 0.07

Common shares related to outstanding stock options and other potentially dilutive securities that were excluded from the computation of diluted earnings (loss) per share as the effect would have been anti-dilutive were 59,567,675 and 45,238,138 for the three months ended June 30, 2004 and 2003, respectively, and 59,008,841 and 50,515,390 for the six months ended June 30, 2004 and 2003, respectively.

Note 6. Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004 (as restated)	2003 (as restated)	2004 (as restated)	2003 (as restated)
Net income (loss)	$ (22,418)	$ 10,196	$ (39,428)	$ 13,087
Foreign currency translation adjustment, net of tax (a)	(13,976)	55,729	(30,883)	90,995

Minimum pension liability adjustment			(63)	
Unrealized loss on derivative instruments, net of tax	(39)	(39)	(78)	(78)
Comprehensive income (loss)	$ (36,433)	$ 65,886	$ (70,452)	$ 104,004

(a) Movement in the foreign currency translation adjustment is primarily due to exchange-rate fluctuations of foreign currencies (primarily the Euro and the Japanese Yen) against the U.S. dollar.

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Note 7. Segment Reporting

The Company s segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the Company s chief operating decision-maker, the Chief Executive Officer and interim Chief Financial Officer, in deciding how to allocate resources and assess performance. The Company s reportable segments consist of its four North America industry groups (Public Services, Financial Services, Communications, Content and Utilities, (previously referred to as Communications and Content), and Consumer, Industrial and Technology), its three international regions (EMEA, Asia Pacific and Latin America) and the Corporate/Other category (which consists primarily of infrastructure costs). Upon consolidation, all intercompany accounts and transactions are eliminated. Inter-segment revenue is not included in the measure of profit or loss and total assets for each reportable segment. Performance of the segments is evaluated on operating income excluding the costs of infrastructure functions (such as information systems, finance and accounting, human resources, legal and marketing).

	Three Months Ended June 30,			
	2004		2003	
	Revenue (as restated)	Operating Income (Loss) (as restated)	Revenue (as restated)	Operating Income (Loss) (as restated)
Public Services	$ 356,403	$ 87,623	$ 277,905	$ 72,414
Communications, Content and Utilities	59,210	7,203	74,586	18,200
Financial Services	75,172	19,272	62,170	15,899
Consumer, Industrial and Technology	112,100	18,894	122,315	30,251
EMEA	163,047	26,542	139,254	7,422
Asia Pacific	84,765	7,398	80,203	8,376
Latin America	20,701	4,019	26,744	6,977
Corporate/Other (1)	3,989	(154,347)	(2,227)	(128,112)
Total	$ 875,387	$ 16,604	$ 780,950	$ 31,427

	Six Months Ended June 30,			
	2004		2003	
	Revenue (as restated)	Operating Income (Loss) (as restated)	Revenue (as restated)	Operating Income (Loss) (as restated)
Public Services	$ 735,290	$ 173,723	$ 559,571	$ 149,736
Communications, Content and Utilities	122,375	13,530	164,027	38,908
Financial Services	142,604	29,130	122,591	27,964
Consumer, Industrial and Technology	226,702	35,295	260,186	59,005

EMEA	316,981	37,942	296,857	15,119
Asia Pacific	172,320	17,281	164,063	16,754
Latin America	41,516	6,610	42,493	10,006
Corporate/Other (1)	6,202	(305,785)	(2,153)	(267,677)
Total	$ 1,763,990	$ 7,726	$ 1,607,635	$ 49,815

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

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Note 8. Transactions with KPMG LLP

On February 13, 2001, the Company and KPMG LLP entered into a transition services agreement whereby the Company receives and is charged for infrastructure services (i.e., facilities management, technology-related services, and other administrative and executive functions) performed by KPMG LLP. The allocation of costs to the Company for such services is based on actual costs incurred by KPMG LLP and are allocated among KPMG LLP s assurance and tax businesses and the Company primarily on the basis of full-time equivalent personnel and actual usage (specific identification). The Company and KPMG LLP have also entered into various other arrangements pursuant to which the Company subleases office space, receives certain office related support services, and receives certain office based technology support services for the Company s U.S. offices from KPMG LLP.

In connection with the winding down and termination of services provided by KPMG LLP prior to the expiration of the transition services agreement and various other arrangements, the Company is obligated to pay to KPMG LLP any termination costs incurred as a result of KPMG LLP having made certain investments in systems, personnel and other assets that were used in KPMG LLP s shared infrastructure and national support capabilities. KPMG LLP and the Company have agreed to work together to minimize any termination costs in connection with the winding down and termination of such services (see Note 11).

Total expenses allocated to the Company with regard to occupancy costs and other infrastructure services were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Occupancy costs	$ 5,919	$ 6,166	$ 12,086	$ 11,809
Other infrastructure service costs	13,446	16,167	27,357	35,288
Total	$ 19,365	$ 22,333	$ 39,443	$ 47,097
Amounts included in:				
Other costs of service	$ 5,919	$ 6,166	$ 12,086	$ 11,809
Selling, general and administrative expenses	13,446	16,167	27,357	35,288
Total	$ 19,365	$ 22,333	$ 39,443	$ 47,097

During fiscal year 2003, the Company purchased certain leasehold improvements from KPMG LLP that had been used by the Company under the transition services agreement. The Company is charged for the use of capital assets by usage charges that are included in the monthly costs under the transition services agreement. The Company purchased $1,547 of capital assets from KPMG LLP during the six months ended June 30, 2004.

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Note 9. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill, at the reporting unit level, for the six months ended June 30, 2004 are as follows:

	Balance December 31, 2003 (as restated)	Additions (as restated)	Other (a) (as restated)	Balance June 30, 2004 (as restated)
Public Services	$ 23,581	$	$	$ 23,581
Communications, Content and Utilities	24,357			24,357
Financial Services	9,210			9,210
Consumer, Industrial and Technology	39,831			39,831
EMEA (b)	821,649		(25,669)	795,980
Asia Pacific (c)	71,717		(2,404)	69,313
Latin America	800		(18)	782
Corporate/Other	202			202
Total	$ 991,347	$	$ (28,091)	$ 963,256

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

(b) Restated goodwill balance in the EMEA segment as of December 31, 2003 increased by $7,068 primarily due to restatement adjustments associated with certain pre-acquisition tax contingencies from the Andersen Business Consulting acquisitions. Refer to Note 2, Restatement , where this correction of an error is included as a component of Accounting for Income Taxes category.

(c) Restated goodwill balance in the Asia Pacific segment as of December 31, 2003 increased by $3,057 primarily due to restatement adjustments associated with errors in foreign currency exchange calculations in the Australian subsidiary. Refer to Note 2, Restatement , where this correction of an error is included as a component of Other Adjustments category.

The Company conducted its annual goodwill impairment test as of April 1, 2004. The goodwill impairment test requires a comparison of the fair value of our reporting units to the respective reporting units carrying value. We estimate the fair values of our reporting units using discounted cash flow valuation models. The fair value of each of our reporting units exceeded its respective carrying value as of April 1, 2004, indicating that the underlying goodwill of each unit was not impaired as of the testing date.

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Identifiable intangible assets include finite-lived intangible assets, which primarily consist of market rights, order backlog, customer contracts and related customer relationships. Identifiable intangible assets are amortized using the straight-line method over their expected period of benefit, which generally ranges from one to five years. Identifiable intangible assets consist of the following:

	June 30, 2004	December 31, 2003
Identifiable intangible assets:		
Customer-related intangibles:		
Backlog, customer contracts and related customer relationships	$ 58,349	$ 60,822
Market-related intangibles:		
Market rights	12,017	12,017
Trade name	1,752	1,811
Total market-related intangibles	13,769	13,828
Total other intangibles	72,118	74,650
Accumulated amortization:		
Customer-related intangibles:		
Backlog, customer contracts and related customer relationships	(57,979)	(59,380)
Market-related intangibles:		
Market rights	(7,240)	(5,924)
Trade name	(1,666)	(1,190)
Total market-related accumulated amortization	(8,906)	(7,114)
Total accumulated amortization	(66,885)	(66,494)
Other intangible assets, net	$ 5,233	$ 8,156

Amortization expense related to identifiable intangible assets was $1,003 and $13,245 for the three months ended June 30, 2004 and 2003, respectively. Amortization expense related to identifiable intangible assets was $2,098 and $25,648 for the six months ended June 30, 2004 and 2003, respectively.

Note 10. Reduction in Workforce and Lease and Facilities Charges

In connection with the Company s previously announced office space reduction efforts, the Company recorded a $8,364 restructuring charge during the three months ended June 30, 2004 related to lease, facility and other exit activities, primarily in the North America, EMEA and Asia Pacific regions. The $8,364 charge, recorded within the Corporate/Other operating segment, included $6,250 related to the fair value of future lease obligations (net of estimated sublease income), $1,055 representing the unamortized cost of fixed assets and $1,059 in other costs associated with exiting facilities. For the six months ended June 30, 2004, the Company recorded total lease and facilities related restructuring

charges of $11,699. Since July 2003, the Company has incurred a total of $73,135 in lease and facilities related restructuring charges in connection with its office space reduction efforts. As of June 30, 2004, the Company has a remaining lease and facilities accrual of $24,177 and $33,383, identified as current and noncurrent portions, respectively. The remaining lease and facilities accrual will be paid over the remaining lease terms.

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As of June 30, 2004, the Company s remaining severance accrual represents unpaid severance and termination benefits related to reduction in workforce charges recorded during the six months ended December 31, 2003. The remaining severance accrual is expected to be paid by the end of calendar year 2005.

Changes in the Company s accrual for restructuring charges for the six months ended June 30, 2004 were as follows:

	Severance (as restated)	Lease and Facilities (as restated)	Total (as restated)
Balance at December 31, 2003	$ 2,338	$ 55,898	$ 58,236
2004 charges		11,699	11,699
Payments	(1,565)	(10,228)	(11,793)
Other (a)	(73)	191	118
Balance at June 30, 2004	$ 700	$ 57,560	$ 58,260

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

Note 11. Commitments and Contingencies

The Company is involved in legal proceedings, claims and litigation arising in the ordinary course of business. Based on its current assessment, management believes that the Company s financial statements include adequate provision for estimated costs and losses that may ultimately be incurred with regard to such matters.

Government Contracts: A significant portion of the Company s business relates to providing services under contracts with the U.S. Government or state and local governments. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government or state and local governments investigate whether the Company s operations are being conducted in accordance with these requirements and the terms of the relevant contracts. For example, under its contracts with the U.S. Government, the Company is subject to audit by the Defense Contract Audit Agency, which could result in adjustments of amounts previously billed. In the ordinary course of business, various government investigations are ongoing. U.S. Government investigations of the Company, whether relating to these contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon the Company, or could lead to suspension or debarment from future U.S. Government contracting. U.S. Government investigations can take years to complete and may result in no adverse action against the Company. The amounts, if any, that the Company will pay to resolve issues identified as a result of these investigations cannot be reasonably estimated at this time. The Company believes that the amount of any such payments relating to pending investigations will not have a material adverse effect on the Company s consolidated financial position, cash flows or liquidity. Whether such amounts could have a material effect on the results of operations in a particular quarter or fiscal year cannot be determined at this time.

Transition Services Provided by 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 in connection with winding down and terminating such services. KPMG LLP and the Company have agreed that during the term of the transition services agreement (which terminated on February 8, 2004 for most non-technology services and terminates no later than February 8, 2005 for technology-related services and limited non-technology services), the parties will work together to minimize any

termination costs (including transitioning personnel and contracts

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from KPMG LLP to the Company), and the 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 for such services.

The amount of termination costs that the Company will pay to KPMG LLP depends upon the timing of service terminations, the ability of the parties to work together to minimize the costs, and the amount of payments required under existing contracts with third parties for services provided to the Company by KPMG LLP and which can continue to be obtained directly by the Company thereafter. During the six months ended June 30, 2004, the Company did not incur any termination costs in connection with winding down and terminating services under the transition services agreement. 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 June 30, 2004 cannot be reasonably estimated at this time.

Other Commitments: In the normal course of business, the Company has indemnified third parties and has commitments and guarantees under which it may be required to make payments in certain circumstances. The Company accounts for these indemnities, commitments, and guarantees in accordance with FASB Interpretation FIN No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. These indemnities, commitments and guarantees include: indemnities of KPMG LLP with respect to the consulting business that was transferred to the Company in January 2000; indemnities to third parties in connection with surety bonds; indemnities to various lessors in connection with facility leases; indemnities to customers related to intellectual property and the performance of services subcontracted to other providers; and indemnities to directors and officers under the organizational documents of the Company. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Certain of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. As of June 30, 2004, the Company has approximately $191,797 of outstanding surety bonds and $34,197 of outstanding letters of credit for which it may be required to make future payment. The estimated fair value of these agreements is minimal. Accordingly, no liabilities have been recorded for these agreements as of June 30, 2004.

Note 12. Pension and Postretirement Benefits

The components of the Company s net periodic pension cost and postretirement medical cost for the three months and six months ended June 30, 2004 were as follows:

	Three Months Ended June 30, 2004	Six Months Ended June 30, 2004
Components of net periodic pension cost:		
Service cost	$ 1,429	$ 2,859
Interest cost	1,050	2,101
Expected return on plan assets	(258)	(516)
Amortization of loss	3	6
Amortization of prior service cost	192	384
Net periodic pension cost	$ 2,416	$ 4,834
Components of net periodic postretirement medical cost:		
Service cost	$ 259	$ 518
Interest cost	103	205

Amortization of prior service cost		117		234
Net periodic postretirement medical cost	$	479	$	957

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(in thousands, except share and per share amounts)

(unaudited)

The Company made cash contributions to its defined benefit pension plans of $709 and $1,462 during the three months and six months ended June 30, 2004, respectively. The Company expects to make additional cash contributions of approximately $1,519 to its defined benefit pension plans during the remainder of fiscal year 2004.

Recently Enacted Legislation

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was signed into law on December 8, 2003. The Act introduced a prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to the prescription drug benefits provided by Medicare.

In May 2004, the FASB issued FASB Staff Position (FSP) No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which provides guidance on the accounting for the effects of the Act, including the accounting for and disclosure of any federal subsidy provided by the Act. FSP No. 106-2 was effective for interim or annual periods beginning after June 15, 2004, and provides that an employer shall measure its accumulated plan benefit obligation and net periodic postretirement benefit cost taking into account any subsidy received under the Act.

The Company s postretirement medical plan (the Plan) currently provides certain prescription drug benefits to eligible participants. Based on the current interpretation of the guidance provided in the Act and the Company s current plan design, the Company has concluded that the prescription drug benefits provided by its postretirement medical plan are not actuarially equivalent to the prescription drug benefits provided by Medicare. Accordingly, no accounting for the federal subsidy is required. In addition, the enactment of the Act was not considered a significant event as defined by paragraph 73 of SFAS No. 106, Employers Accounting for Postretirement Benefits Other than Pensions; therefore, the Company did not remeasure its accumulated plan benefit obligation upon adoption of the Act. The Company s accumulated plan benefit obligation as of June 30, 2004, and the net periodic postretirement benefit costs for the year ended June 30, 2004, were not impacted by the Act.

Note 13. Derivative Financial Instruments

The Company has borrowings outstanding under bank credit facilities, which carry variable interest rates. 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 fiscal year ended June 30, 2003, the Company entered into treasury rate locks on $125,000 of five-year debt in order to secure the interest rate on a portion of the $220,000 of Senior Notes. Treasury rate locks are customized derivative securities used by investors to lock in the yield or price of a treasury security. The treasury locks are derivative instruments as defined by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and were 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 accreted into interest expense over the term of the debt. The unamortized gain related to the treasury locks included in accumulated other comprehensive income as June 30, 2004 was approximately $538, of which approximately $157 will be accreted into interest expense over the next twelve months.

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BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

Note 14. Change in Estimate

During the quarter ended December 31, 2002, the Company decreased the expected remaining useful life of certain systems applications used as part of its infrastructure operations. The decrease in the expected remaining useful life was a result of the Company s continued build-out of certain infrastructure functions which was completed during the second quarter of 2004. This change in estimate resulted in a charge to net income of $1,656 and $2,838 (net of tax), or $0.01 and $0.01 per share, for the three months and six months ended June 30, 2004, respectively. This change in estimate resulted in a charge to net income of $1,775 and $3,549 (net of tax), or $0.01 and $0.02 per share, for the three months and six months ended June 30, 2003, respectively.

Note 15. Income Taxes

For the three months ended June 30, 2004, the Company earned income before taxes of $10,266 and provided for income taxes of $32,684, resulting in an effective tax rate of 318.4%. For the six months ended June 30, 2004, the Company realized a loss before taxes of $4,842 and provided for income taxes of $34,586, resulting in an effective tax rate of (714.3%). The effective tax rate varied from the U.S. Federal statutory tax rate for the three and six months ended June 30, 2004 primarily as a result of the impact of foreign recapitalization, the mix of income attributable to foreign versus domestic tax jurisdiction, changes in tax reserves, non-deductible meals and entertainment, and state and local taxes.

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

The following discussion and analysis 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. All references to years, unless otherwise noted, refer to our twelve-month fiscal year, which prior to July 1, 2003 ended on June 30. In February 2004, our board of directors approved a change in our fiscal year end from a twelve-month period ending June 30 to a twelve-month period ending December 31. For example, a reference to 2003 or fiscal year 2003 means the twelve-month period that ended on June 30, 2003, and a reference to 2004 or fiscal year 2004 means the twelve-month period ending December 31, 2004.

The MD&A includes a non-Generally Accepted Accounting Principles (GAAP) constant-currency measure that monitors our constant-currency performance for non-U.S. operations and the Company as a whole. Constant-currency results are calculated by translating current-year and prior-year local currency revenues at weighted average exchange rates. The translated results are then used to determine period-over-period percentage increases or decreases that exclude the impact of currency. We believe presenting certain results on a constant-currency basis is useful to investors because it allows for a more meaningful comparison of the performance of our foreign operations from period to period.

Balances and amounts throughout this MD&A are presented on a restated basis.

Overview

We are one of the world s largest management consulting, systems integration and managed services firms, serving government agencies, Global 2000 companies, medium-sized businesses and other organizations. We provide business and technology strategy, systems design, architecture, applications implementation, network infrastructure, systems integration and managed services. In North America, we provide consulting services through industry groups in which we have significant industry-specific knowledge. Our focus on specific industries provides us with the ability to tailor our service offerings to reflect our understanding of the marketplaces in which our clients operate. Our operations outside of North America are organized on a geographic basis, with operations in Latin America, the Asia Pacific region, and Europe, the Middle East and Africa (EMEA). We utilize this multinational network to provide consistent integrated services throughout the world.

For the three months ended June 30, 2004, international operations outside North America represented 30.7% of our business (measured in revenue dollars), compared to 31.5% for the three months ended June 30, 2003. For the six months ended June 30, 2004, international operations outside North America represented 30.1% of our business (measured in revenue dollars), compared to 31.3% for the six months ended June 30, 2003.

We derive substantially all of our revenue from professional services activities. Our revenue is driven by our ability to continuously generate new opportunities to serve clients, by the prices we obtain for our service offerings, and by the size and utilization of our professional workforce. Our ability to generate new business is directly influenced by the economic conditions in the industries and regions we serve, our anticipation and response to technological change, and the type and level of technology spending by our clients. When economic conditions decline, companies generally decrease their technology budgets and reduce the amount of spending on the type of information technology (IT) consulting and systems integration services we provide. Our revenue is also impacted by the prices we obtain for our service offerings and by the size and chargeability, or utilization rate, of our professional workforce. During periods of economic decline and reduced client spending, competition for new engagements increases, and it becomes more difficult to maintain our billing rates and sustain an appropriate utilization rate. If we are unable to maintain our billing rates or sustain an appropriate utilization rate for our professionals, our overall profitability may decline.

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Our 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). Our revenue for the three months ended June 30, 2004 was $875.4 million. This represents an increase of $94.4 million, or 12.1%, from revenue generated during the three months ended June 30, 2003 of $781.0 million. When compared to the three months ended June 30, 2003, revenue for our North America region increased $65.9 million or 12.3%, while revenue for our international regions increased $22.3 million or 9.1%. Our revenue for the six months ended June 30, 2004 was $1,764.0 million. This represents an increase in revenue of $156.4 million, or 9.7%, over revenue generated during the six months ended June 30, 2003 of $1,607.6 million. When compared to the six months ended June 30, 2003, revenue for our North America region increased $120.6 million or 10.9%, while revenue for our international regions increased $27.4 million or 5.4%. When compared to the same periods during the prior year, revenue for our North America region increased primarily due to increases in revenue in both our Public Services and Financial Services business units, offset by declines in revenue in our Communications, Content and Utilities and Consumer, Industrial and Technology business units. Revenue for our international regions increased as a result of the effects of currency exchange-rate fluctuations on reported revenue.

As a multinational company, our international operations, whose functional currency is the local currency, may be significantly affected by currency exchange-rate fluctuations between such local currencies and the U.S. dollar. Over the past year, the strengthening of foreign currencies (primarily the Euro and the Japanese Yen) against the U.S. dollar has resulted in a favorable currency translation that has increased our reported U.S. dollar revenue and expense when compared to the same period in the prior year. In constant currency (local currency) terms, our consolidated revenue for the three months ended June 30, 2004 increased by 10.2%, when compared to the three months ended June 30, 2003. In constant currency (local currency) terms, our consolidated revenue for the six months ended June 30, 2004 increased by 6.6%, when compared to the six months ended June 30, 2003. A weakening of foreign currencies against the U.S. dollar could reduce reported revenue and expense items during future periods.

The general economic downturn for the majority of the past year has negatively effected the operations of many of our clients and, in turn, impacted their information technology spending. During this time, competition for new engagements remained strong. However, we are beginning to see improvements in global economic conditions, which has recently led to increased spending on consulting services in certain markets, particularly in our Public Services and Financial Services business units and in certain international regions. Five out of our seven operating segments reported bookings (i.e. new contracts) during the quarter that exceeded our bookings reported during the previous quarter. On a consolidated basis, our book-to-bill ratio (i.e., the ratio of new business booked during the period as a percentage of revenue recognized during the period) for the quarter ended June 30, 2004 was the best of any quarter during the past twelve months. The focus of our dedicated sales force and strong relationships with key accounts has enabled us to maintain strong bookings.

Although we are beginning to experience some positive economic indicators, we continue to experience pricing pressures as competition for new engagements remains strong and as movements toward the use of lower-cost service delivery personnel continue to grow within our industry. Despite strong pricing pressures, we improved our consolidated billing rates when compared to the prior year. Our global presence and experienced, highly skilled workforce have enabled us to successfully differentiate our value and capabilities from those of our competitors, in effect, lessening the impact of current market pricing pressures. Billing rates for our international operations improved 9.7% for the three months ended June 30, 2004 when compared to the three months ended June 30, 2003. Meanwhile, billing rates for our North American operations remained stable for the three months ended June 30, 2004 when compared to the same period during the prior year.

Our gross profit for the three months ended June 30, 2004 was $185.5 million compared with $168.3 million for the three months ended June 30, 2003. Gross profit as a percentage of revenue decreased slightly to 21.2% during the current period compared to 21.5% during the three months ended June 30, 2003. The decline in gross

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profit percentage is principally due to an increase in other direct contract expenses as the gross margin on revenue derived from other direct contract expenses is generally less profitable than the gross margin derived from services provided from our own workforce. Other direct contract expenses as a percentage of revenue increased to 29.1% during the current period compared to 24.3% during the three months ended June 30, 2003. Our gross profit for the six months ended June 30, 2004 was $328.3 million compared with $337.3 million for the six months ended June 30, 2003. Gross profit as a percentage of revenue decreased to 18.6% during the six months ended June 30, 2004 compared to 21.0% during the six months ended June 30, 2003. The decline in gross profit percentage is principally due to an increase in other direct contract expenses. Other direct contract expenses as a percentage of revenue increased to 31.1% during the six months ended June 30, 2004 compared to 24.3% during the six months ended June 30, 2003.

The increase in other direct contract expenses, including the cost of subcontractors, has negatively impacted our gross profit. Although we require subcontractors to handle specific requirements on certain engagements, a large portion of our subcontractor usage is not a skill-set issue, as many times clients mandate the use of certain subcontractors. Additionally, the size and complexity of some of our projects make the use of subcontractors a key component to winning the projects. Whenever possible we are focused on limiting the use of subcontractors, working to increase our margins by complementing our solutions offerings with greater offshore capabilities, and increasing our hiring in order to balance our skill base with the market demand for services.

As of June 30, 2004, we had approximately 16,000 employees, including approximately 14,000 client service personnel. We have increased our total headcount and average billable headcount by approximately 600 and 400, respectively, when compared to June 30, 2003. Along with our increase in headcount, consolidated utilization during the three months improved slightly when compared to the three months ended June 30, 2003. Utilization in our North America, EMEA and Asia Pacific regions improved by 0.9%, 5.5% and 14.5%, respectively, while utilization within our Latin America region declined by 4.4%. Utilization represents the percentage of time spent by our client service personnel on billable work. The improvement in our overall utilization is primarily the result of aligning our workforce with market demand for services and successfully integrating our personnel acquired through acquisitions made during fiscal year 2003.

Since July 2003, we have incurred $73.1 million in total restructuring charges related to our global space reduction plan, which is in line with previously issued guidance. Our office space reduction efforts were focused on reducing our overall office space in order to eliminate excess capacity and to align our office space usage with our current workforce and the needs of the business. During the three months ended June 30, 2004, we recorded an additional $8.4 million charge related to lease, facilities, and other exit costs. Our office space reduction efforts are expected to result in a reduction of our fiscal year 2004 occupancy costs of approximately $20 million.

As of April 1, 2004, we conducted our annual goodwill impairment test. The goodwill impairment test requires a comparison of the fair value of our reporting units to the respective reporting units carrying value. We estimate the fair values of our reporting units using discounted cash flow valuation models. As of April 1, 2004, the fair value of each of our reporting units exceeded their respective carrying value, indicating that the underlying goodwill of each unit was not impaired as of the testing date. During the six months ended December 31, 2003, we determined that a triggering event was present in our EMEA reporting unit, causing us to perform a goodwill impairment test. The triggering event resulted from adverse changes in the business climate affecting our European operations, which caused our operating profit and cash flows for the EMEA reporting unit to be lower than expected for the six months ended December 31, 2003. As a result of the impairment test, we recorded a goodwill impairment charge of $127.3 million ($0.66) per share.

Prior to fiscal year 2004, certain of our consolidated foreign subsidiaries within the EMEA and Asia Pacific regions reported their results on a one-month lag, which allowed additional time to compile results. We have taken steps to improve our internal reporting procedures, which have allowed for more timely reporting of these operations. Beginning in the first quarter of fiscal year 2004, the one-month lag for certain of our Asia Pacific

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operations was eliminated. As a result, net income for the six months ended June 30, 2004 includes a cumulative effect of a change in accounting principle of $0.5 million, representing the December 2003 net loss for these entities.

For the three months ended June 30, 2004, we earned income before taxes of $10.3 million and provided for income taxes of $32.7 million resulting in an effective tax rate of 318.4%. For the six months ended June 30, 2004, we realized a loss before taxes of $4.8 million and provided for income taxes of $34.6 million, resulting in an effective tax rate of (714.3%). The effective tax rate varied from the U.S. Federal statutory tax rate for the three and six months ended June 30, 2004 primarily as a result of the impact of foreign recapitalization, the mix of income attributable to foreign versus domestic tax jurisdiction, changes in tax reserves, non-deductible meals and entertainment, and state and local taxes.

Segments

For the three and six months ended June 30, 2004 and 2003, our reportable segments consist of our four North America industry groups (Public Services, Financial Services, Communications, Content and Utilities (previously referred to as Communications and Content) and Consumer, Industrial and Technology), our three international regions (EMEA, Asia Pacific and Latin America) and the Corporate/Other category (which consists primarily of infrastructure costs). Our chief operating decision maker, the Chief Executive Officer (who also serves as interim Chief Financial Officer), evaluates performance and allocates resources among the segments. Upon consolidation, all intercompany accounts and transactions are eliminated. Inter-segment revenue is not included in the measure of profit or loss for each reportable segment. Performance of the segments is evaluated on operating income excluding the costs of infrastructure functions (such as information systems, finance and accounting, human resources, legal and marketing) as described in Note 7, Segment Reporting, of the Notes to Consolidated Condensed Financial Statements.

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 of 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 for which payments have been received are recorded as deferred revenue until the applicable revenue recognition criteria are met. We recognize revenue when it is earned. We consider revenue to be 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, time-and-materials not to exceed 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 provide that they can be terminated without significant advance notice or penalty. Generally, if a client terminates a project, the client remains obligated to pay for services performed and expenses incurred by us through the date of termination.

Costs of Service. Our costs of service include professional compensation and other direct contract expenses, as well as costs attributable to the support of client service professional staff, depreciation and amortization costs related to assets used in revenue-generating activities, bad debt expense relating to accounts receivable, and other costs attributable to serving our client base. Professional compensation consists of payroll costs and related benefits associated with client service professional staff (including costs associated with reductions in workforce and tax equalization for employees on foreign assignments). Other direct contract expenses include costs directly attributable to client engagements. These costs include out-of-pocket costs such as travel and subsistence for

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client service professional staff, costs of hardware and software and costs of subcontractors. Additionally, our costs of service include restructuring or impairment charges related to assets used in revenue-generating activities, such as costs incurred associated with our office space reduction effort.

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 resulted from our 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.

Interest Income (Expense), Net. Interest expense reflects interest incurred on our borrowings, including interest incurred on private placement senior notes, borrowings under revolving lines of credit and borrowings under foreign currency denominated term loans. Interest income represents interest earned on short-term investments of available cash and cash equivalents.

Income Tax Expense. Income tax expense is based upon pre-tax earnings and enacted income tax rates. Our income tax expense will differ from the applicable statutory rates due to the amount of nondeductible items and the mix of income attributable to foreign versus domestic tax jurisdictions.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires that management make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Management s estimates, assumptions and judgments are derived and continually evaluated based on available information, historical experience and various other assumptions that are believed to be reasonable under the circumstances. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates. The areas that we believe are our most critical accounting policies include revenue recognition, valuation of accounts receivable, valuation of goodwill, accounting for income taxes, valuation of long-lived assets, accounting for leases, restructuring charges, legal contingencies, retirement benefits, accounting for stock options, accounting for intercompany loans and accounting for employee global mobility and tax equalization.

A critical accounting policy is one that involves making difficult, subjective or complex accounting estimates that could have a material effect on our financial condition and results of operations. Critical accounting policies require us to make assumptions about matters that are highly uncertain at the time of the estimate, and different estimates that we could have used, or changes in the estimate that are reasonably likely to occur, may have a material impact on our financial condition or results of operations.

Revenue Recognition

We earn revenues from three primary sources: (1) technology integration services where we design, build and implement new or enhanced system applications and related processes, (2) services to provide general business consulting, such as system selection or assessment, feasibility studies, business valuations, and corporate strategy services, and (3) managed services in which we manage, staff, maintain, host or otherwise run solutions and systems provided to our customers. Contracts for these services have different terms based on the scope, deliverables, and complexity of the engagement which require us to make judgments and estimates in recognizing revenues. Fees for these contracts may be in the form of time-and-materials, cost-plus and fixed price.

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Technology integration services represent a significant portion of our business and are generally accounted for under the percentage-of-completion method in accordance with the American Institute of Certified Public Accountants Statement of Position (SOP) No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Under the percentage-of-completion method, management estimates the percentage-of-completion based upon costs to the client incurred as a percentage of the total estimated costs to the client. When total cost estimates exceed revenues, we accrue for the estimated losses immediately. The use of the percentage-of-completion method requires significant judgment relative to estimating total contract revenues and costs, including assumptions relative to the length of time to complete the project, the nature and complexity of the work to be performed, and anticipated changes in estimated salaries and other costs. Incentives and award payments are included in estimated revenues using the percentage-of-completion method when the realization of such amounts is deemed probable upon achievement of certain defined goals. Estimates of total contract revenues and costs are continuously monitored during the term of the contract, and recorded revenues and costs are subject to revision as the contract progresses. When revisions in estimated contract revenues and costs are determined, such adjustments are recorded in the period in which they are first identified.

Revenues for general business consulting services are recognized as work is performed and amounts are earned in accordance with the Securities and Exchange Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition. We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable, and collectibility is reasonably assured. For contracts with fees based on time and materials or cost plus, we recognize revenue over the period of performance. Depending on the specific contractual provisions and nature of the deliverable, revenue may be recognized on a proportional performance model based on level of effort, as milestones are achieved or when final deliverables have been provided.

For our managed service arrangements, we typically implement or build system applications for customers that we then manage or run for periods that may span several years. Such arrangements include the delivery of a combination of one or more of our service offerings and are governed by the Emerging Issues Task Force Issue 00-21, Accounting for Revenue Arrangements with Multiple Deliverables. In managed service arrangements in which the system application implementation or build has standalone value to the customer, and we have evidence of fair value for the managed services, we bifurcate the total arrangement into two units of accounting: (i) the system application implementation or build which is recognized as technology integration services using the percentage-of-completion method under SOP 81-1, and (ii) managed services that are recognized under SAB No. 104 ratably over the estimated life of the customer relationship. In instances where we are unable to bifurcate, implementation or build are deferred and recognized together with managed services upon completion of the system application implementation or build ratably over the estimated life of the customer relationship. Certain managed service arrangements may also include transaction-based services in addition to the system application implementation or build and managed services. Fees from transaction-based services are recognized as earned if we have evidence of fair value for such transactions; otherwise, transaction fees are spread ratably over the remaining life of the customer relationship period as received. The determination of fair value requires us to use significant judgment. We determine the fair value of service revenues based upon our recent pricing for those services when sold separately and/or prevailing market rates for similar services.

Valuation of Accounts Receivable

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Assessing the collectibility of customer receivables requires management judgment. We determine our allowance for doubtful accounts by specifically analyzing individual accounts receivable, historical bad debts, customer concentrations, customer credit-worthiness, current economic and accounts receivable aging trends and changes in our customer payment terms. Our valuation reserves are periodically reevaluated and adjusted as more information about the ultimate collectibility of accounts receivable becomes available.

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Valuation of Goodwill

Following the adoption of SFAS No. 142, we no longer amortize goodwill and certain intangible assets, but instead assess the impairment of goodwill and identifiable intangible assets on at least an annual basis on April 1st and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance relative to historically or projected future operating results, identification of other impaired assets within a reporting unit, the disposition of a significant portion of a reporting unit, significant adverse changes in business climate or regulations, significant changes in senior management, significant changes in the manner of our use of the acquired assets or the strategy for our overall business, significant negative industry or economic trends, a significant decline in our stock price for a sustained period, a decline in our credit rating, or a reduction of our market capitalization relative to net book value. Determining whether a triggering event has occurred includes significant judgment from management.

The goodwill impairment test prescribed by SFAS No. 142 requires us to identify reporting units and to determine estimates of the fair value of our reporting units as of the date we test for impairment. As of June 30, 2004, our reporting units consisted of our four North America industry groups and our three international regions. To conduct a goodwill impairment test, the fair value of the reporting unit is compared with its carrying value. If the reporting unit s carrying value exceeds its fair value, we record an impairment loss to the extent that the carrying value of the goodwill exceeds its implied fair value. The fair value of a reporting unit is the amount for which the unit as a whole could be bought or sold in a current transaction between willing parties. We estimate the fair values of our reporting units using discounted cash flow valuation models. These models require estimates of future revenue, profits, capital expenditures and working capital for each unit. We estimate these amounts by evaluating historical trends, current budgets, operating plans and industry data. Determining the fair value of reporting units and goodwill includes significant judgment by management and different judgments could yield different results.

Accounting for Income Taxes

Provisions for federal, state and foreign income taxes are calculated on reported pre-tax earnings based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently receivable or payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes. Significant judgment is required in determining income tax provisions and evaluating tax positions. We establish reserves for income tax when, despite the belief that our tax positions are fully supportable, there remain certain positions that are probable to be challenged and possibly disallowed by various authorities. The consolidated tax provision and related accruals include the impact of such reasonably estimable losses and related interest as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimates will impact the income tax provision in the period in which such determination is made.

At June 30, 2004, we believe we have appropriately accrued for exposures related to uncertain tax positions. To the extent we were to prevail in matters for which accruals have been established or be required to pay amounts in excess of reserves, our effective tax rate in a given financial statement period may be materially impacted.

The carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in certain tax jurisdictions to realize the value of these assets. If we are unable to generate sufficient future taxable income in these jurisdictions, a valuation allowance is recorded when it is more likely than not that the value of the deferred tax assets is not realizable. Management evaluates the realizability of the deferred tax assets and assesses the need for any valuation allowance.

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Valuation of Long-Lived Assets

Long-lived assets primarily include property and equipment and intangible assets with finite lives (purchased software, internal capitalized software, and customer lists). In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, we periodically review long-lived assets for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives are no longer appropriate. Each impairment test is based on a comparison of the undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its estimated fair value based on a discounted cash flow analysis. Determining the fair value of long-lived assets includes significant judgment by management, and different judgments could yield different results.

Accounting for Leases

We lease all of our office facilities under non-cancelable operating leases that expire at various dates through 2015, along with options that permit renewals for additional periods. Rent abatements and escalations are considered in the determination of straight-line rent expense for operating leases. Leasehold improvements made at the inception of or during the lease are amortized over the shorter of the asset life or the lease term. We receive incentives to lease office facilities in certain areas. These incentives are recorded as a deferred credit and recognized as a reduction to rent expense on a straight-line basis over the lease term.

Restructuring Charges

We periodically record restructuring charges resulting from restructuring our operations (including consolidation and/or relocation of operations), changes in our strategic plan or managerial responses to increasing costs or declines in demand. The determination of restructuring charges requires management to utilize significant judgment and estimates related to expenses for employee benefits, such as costs of severance and termination benefits, and costs for future lease commitments on excess facilities, net of estimated future sublease income. In determining the amount of lease and facilities restructuring charges, we are required to estimate such factors as future vacancy rates, the time required to sublet excess facilities and sublease rates. These estimates are reviewed and potentially revised on a quarterly basis based on available information and known market conditions. If our assumptions prove to be inaccurate, we may need to make changes in these estimates that could impact our financial position and results of operations.

Legal Contingencies

We are currently involved in various claims and legal proceedings. We periodically review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. We use significant judgment in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information at that time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of potential liabilities could have a material impact on our financial position and results of operations. We expense legal fees as incurred.

Retirement Benefits

Our pension plans and postretirement benefit plans are accounted for using actuarial valuations required by SFAS No. 87, Employers Accounting for Pensions, and SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions. Accounting for retirement plans requires management to make significant subjective judgments about a number of actuarial assumptions, including discount rates, salary growth, long-term return on plan assets, retirement, turnover, health care cost trend rates and mortality rates.

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Depending on the assumptions and estimates used, the pension and postretirement benefit expense could vary within a range of outcomes and have a material effect on our financial position and results of operations. In addition, the assumptions can materially affect accumulated benefit obligations and future cash funding.

Accounting for Stock Options

We recognize stock option costs pursuant to APB Opinion No. 25, Accounting for Stock Issued to Employees, and have elected to disclose the impact of expensing stock options pursuant to SFAS No. 123, Accounting for Stock-Based Compensation, in the notes to our financial statements. Effective for the quarter ended March 31, 2006, we will adopt the provisions of SFAS No. 123R, Share-Based Payment. Both SFAS No. 123 and 123R require management to make assumptions to determine the underlying value of stock options, including the expected life of the stock options and the volatility of the stock options. Changes to the underlying assumptions may have a significant impact on the underlying value of the stock options, which could have a material impact on our financial statements.

Accounting for Intercompany Loans

Intercompany loans are classified between long and short term based on management s intent regarding repayment. Translation gains and losses on short term debt are recorded in other income (expense), net in the income statement and similar gains and losses on long-term debt are recorded as other comprehensive income in shareholder s equity. Accordingly, changes in management s intent relative to the expected repayment of these intercompany loans will change the amount of translation gains and losses included in the income statement.

Accounting for Employee Global Mobility and Tax Equalization

We have a tax equalization policy designed to ensure our employees on domestic long-term and foreign assignments will be subject to the same level of personal tax regardless of the tax jurisdiction in which the employee works. We accrue for tax equalization expenses in the period incurred. As more fully described in Note 2, Restatement, of the Notes to Consolidated Condensed Financial Statements, we recorded restatement adjustments related to accounting errors for employee mobility and tax equalization. Included within the restatement adjustments, we calculated interest and penalties associated with failure to timely file and withhold payroll taxes. In the event we can settle the liability for less than the amount accrued, a credit to expenses will be recorded in the period of adjustment.

Financial Statement Presentation

The consolidated condensed financial statements reflect the operations of the Company and all of its majority-owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated. Prior to calendar year 2004, certain of our consolidated foreign subsidiaries within the EMEA and Asia Pacific regions reported their results on a one-month lag, which allowed additional time to compile results. We have taken steps to improve our internal reporting procedures, which have allowed for more timely reporting of these operations. Beginning in the first quarter of calendar year 2004, the one-month lag for certain of the Asia Pacific operations was eliminated. Certain of our consolidated foreign subsidiaries continue to report their results of operations on a one-month lag.

On February 2, 2004, we changed our fiscal year end from a twelve-month period ending June 30 to a twelve-month period ending December 31. Accordingly, management s discussion and analysis of financial condition and results of operations will compare the unaudited results of operations for the three months ended June 30, 2004 to the unaudited results of operations for the three months ended June 30, 2003, compare the unaudited results of operations for the six months ended June 30, 2004 to the unaudited results of operations for the six months ended June 30, 2003, and discuss our liquidity and capital resources as of June 30, 2004.

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Balances and amounts throughout the consolidated condensed financial statements and accompanying notes are presented on a restated basis.

Results of Operations

The following tables present certain financial information and performance metrics for each of our reportable segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
	(in thousands)		(in thousands)	
	(as restated)	(as restated)	(as restated)	(as restated)
Revenue:				
Public Services	$ 356,403	$ 277,905	$ 735,290	$ 559,571
Communications, Content and Utilities	59,210	74,586	122,375	164,027
Financial Services	75,172	62,170	142,604	122,591
Consumer, Industrial and Technology	112,100	122,315	226,702	260,186
EMEA	163,047	139,254	316,981	296,857
Asia Pacific	84,765	80,203	172,320	164,063
Latin America	20,701	26,744	41,516	42,493
Corporate/Other	3,989	(2,227)	6,202	(2,153)
Total	$ 875,387	$ 780,950	$ 1,763,990	$ 1,607,635
Revenue %:				
Public Services	41%	36%	42%	35%
Communications, Content and Utilities	7%	10%	7%	10%
Financial Services	9%	8%	8%	8%
Consumer, Industrial and Technology	13%	16%	13%	16%
EMEA	19%	18%	18%	18%
Asia Pacific	10%	10%	10%	10%
Latin America	2%	3%	2%	3%
Corporate/Other	n/m	n/m	n/m	n/m
Total	100%	100%	100%	100%
Gross Profit (Loss):				
Public Services	$ 100,616	$ 83,815	$ 197,586	$ 169,816
Communications, Content and Utilities	12,347	21,928	23,340	46,571
Financial Services	25,016	19,253	39,931	34,582
Consumer, Industrial and Technology	26,469	36,388	49,752	72,399
EMEA	31,255	21,666	46,698	42,090
Asia Pacific	12,295	13,581	27,241	27,101
Latin America	4,904	8,535	8,229	12,541
Corporate/Other (1)	(27,442)	(36,890)	(64,463)	(67,775)
Total	$ 185,460	$ 168,276	$ 328,314	$ 337,325
Gross Profit (Loss) %:				
Public Services	28%	30%	27%	30%
Communications, Content and Utilities	21%	29%	19%	28%
Financial Services	33%	31%	28%	28%
Consumer, Industrial and Technology	24%	30%	22%	28%
EMEA	19%	16%	15%	14%

Asia Pacific	15%	17%	16%	17%
Latin America	24%	32%	20%	30%
Corporate/Other	n/m	n/m	n/m	n/m
Total	21%	22%	19%	21%

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(1) Corporate/Other gross profit (loss) is principally due to infrastructure and shared services costs.
n/m = not meaningful

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Revenue. Revenue increased $94.4 million, or 12.1%, from $781.0 million during the three months ended June 30, 2003, to $875.4 million during the three months ended June 30, 2004. The increase in revenue was primarily attributable to a $65.9 million increase in revenue within our North America operating segments and a $22.3 million increase in revenue within our international operating segments. Our North America revenue of $602.9 million for the three months ended June 30, 2004 increased 12.3% when compared to the same period in the prior year. The increase in our North America revenue was primarily the result of strong growth in both our Public Services and Financial Services business units. Revenue from our international operations for the three months ended June 30, 2004 was $268.5 million, an increase of 9.1% when compared to the same period in the prior year. The increase in revenue from our international operations was primarily the result of growth in the EMEA region and the effect of currency exchange-rate fluctuations on reported revenue.

Public Services, the Company s largest business unit, generated revenue during the three months ended June 30, 2004 of $356.4 million, representing an increase of $78.5 million, or 28.2%, over the three months ended June 30, 2003. This increase was predominantly the result of growth in the Federal business sector. Overall, our Public Services business unit experienced increases in both engagement hours and billing rates of 15.7% and 10.8%, respectively. Revenue for our State, Local & Education (SLED) business sector decreased when compared to the prior year due to the completion of several large engagements and the gradual transition to new work.

The Communications, Content and Utilities generated revenue of $59.2 million during the three months ended June 30, 2004, representing a decline of $15.4 million, or 20.6%, from the three months ended June 30, 2003. This decline was primarily the result of declines in revenue in our Wireline sector due to our completion of several large contracts involving testing related to compliance with the 1996 Telecommunications Act. While engaged on compliance testing contracts, certain clients decided to curtail the Company s involvement in non-compliance related projects. The Communications, Content and Utilities business unit experienced a decline in average billing rates and engagement hours of 10.1% and 11.7%, respectively, when compared to the prior period.

Our Financial Services business unit generated revenue during the three months ended June 30, 2004 of $75.2 million, representing growth of $13.0 million, or 20.9%, over the three months ended June 30, 2003. This increase in revenue was principally due to a 46.7% increase in engagement hours and a 12.2% increase in utilization when compared to the same period in the prior year. Growth in the Financial Services business unit was predominantly in the Banking & Insurance sector. Although engagement hours and utilization increased, billing rates for the three months ended June 30, 2004 declined 17.6% when compared to the same period during the prior year as a result of pricing pressure from both our clients and competition in the Banking & Insurance and Global Markets sectors.

The Consumer, Industrial and Technology business unit generated revenue during the three months ended June 30, 2004 of $112.1 million, representing a decline of $10.2 million, or 8.4%, over the three months ended June 30, 2003. This decline was primarily the result of challenging economic conditions in this market segment over the past year, which have led to a decrease in technology spending and increased pricing pressures. Consumer, Industrial and Technology experienced a decline in average billing rates of 6.8% when compared to the same period in the prior year. Although client spending within the Consumer, Industrial and Technology industry remains cautious, we have begun to see some positive opportunities for growth, evidenced largely by improvement in our bookings. Bookings for the three months ended June 30, 2004 were the highest they have been in the past three quarters, primarily resulting from market improvements in the Oil & Gas, Life Sciences and Aerospace & Defense industries.

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The EMEA business unit generated revenue of $163.0 million during the three months ended June 30, 2004, representing growth of $23.8 million, or 17.1%, over the three months ended June 30, 2003. The reported revenue for our EMEA business unit is affected by currency exchange-rate fluctuations. Over the past year, the strengthening of foreign currencies (primarily the Euro) against the U.S. dollar has resulted in a favorable currency translation that has increased our reported U.S. dollar revenue when compared to the same period in the prior year. In constant currency terms, revenue for our EMEA business unit for the three months ended June 30, 2004 improved by approximately 10.4% when compared to the three months ended June 30, 2003. The quarter ended June 30, 2004 was our most profitable quarter in EMEA in the past six quarters. Growth in the EMEA business unit is mainly the result of an increase in average billing rates (on a constant currency basis) of 12.4%, despite continued pricing pressure in the market.

The Asia Pacific business unit generated revenue of $84.8 million during the three months ended June 30, 2004 representing growth of $4.6 million, or 5.7%, over the three months ended June 30, 2003. The reported revenue for our Asia Pacific business unit is affected by currency exchange-rate fluctuations. Over the past year, the strengthening of foreign currencies against the U.S. dollar has resulted in a favorable currency translation that has increased our reported U.S. dollar revenue when compared to the same period in the prior year. During the three months ended June 30, 2004, the Asia Pacific business unit was engaged in a number of fixed fee projects where the average rate per hour was lower than the historical average for the region. As a result, in constant currency terms, revenue for our Asia Pacific business unit for the three months ended June 30, 2004 decreased by approximately 2.3% when compared to the three months ended June 30, 2003. The average rate per hour for these engagements, primarily in Australia, China and Japan, was lower than the historical average as a result of expending additional time and effort to deliver under our contractual arrangements than was initially planned. In addition, average billing rates were negatively impacted by significant investments made on certain engagements in an effort to position ourselves favorably for prospective work.

Our Latin America business unit generated revenue of $20.7 million during the three months ended June 30, 2004, representing a decrease of $6.0 million, or 22.6%, over the three months ended June 30, 2003. Revenue in Latin America declined as a result of increased market competition, primarily in Mexico and Brazil. The increase in market competition resulted in a 9.7% decline in engagement hours as well as a 10.3% decrease in our average billing rate per hour. Our utilization has declined slightly; however, we believe our workforce is in line with market demand for services. Currency exchange-rate fluctuations did not have a significant impact on our Latin America operations.

Gross Profit. Gross profit as a percentage of revenue declined slightly to 21.2% for the three months ended June 30, 2004, compared to 21.5% for the three months ended June 30, 2003. The decrease in gross profit as a percentage of revenue was primarily due to an increase in other direct contract expenses. Other direct contract expenses as a percentage of revenue increased to 29.1% during the current period compared to 24.3% during the three months ended June 30, 2003. In dollar terms, gross profit increased by $17.2 million, or 10.2%, from $168.3 million for the three months ended June 30, 2003, to $185.5 for the three months ended June 30, 2004. The decrease in gross profit as a percentage of revenue for the three months ended June 30, 2004 compared to the same period during the prior year resulted primarily from the net impact of the following:

A net increase in professional compensation of $15.3 million, or 4.3%, from $356.4 million for the three months ended June 30, 2003, to $371.7 million for the three months ended June 30, 2004. The increase in professional compensation expense is primarily the result of hiring additional billable employees in our Public Services and Financial Services business units in response to the market demands in these industries. Professional compensation expense as a percentage of revenue improved to 42.5% for the three months ended June 30, 2004 compared to 45.6% during the same period in the prior year.

A net increase in other direct contract expenses of $64.9 million, or 34.2%, from $189.9 million, or 24.3% of revenue, for the three months ended June 30, 2003, to $254.7 million, or 29.1% of revenue, for the three months ended June 30, 2004. The $64.9 million increase in other direct contract expenses is mainly attributable to our increased use of subcontractors, particularly in the Public Services, Asia

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Pacific and EMEA business units. Additionally, the increase in subcontractors and materials procurement costs negatively impacted gross margin, as the gross margin on revenue derived from other direct contract expenses is generally less profitable than the gross margin on revenue derived from services provided from our own workforce. Although we require subcontractors to handle specific requirements on some engagements, the majority of our subcontractor usage is not a skill-set issue, as many times clients mandate the use of certain subcontractors. In addition, the size and complexity of some of our projects make usage of subcontractors a key ingredient to winning the projects. We are focused on limiting the use of subcontractors and minimizing travel-related expenses whenever possible, working to increase our margins by complementing our solutions offerings with greater offshore capabilities, and increasing our hiring in order to align our skill base with the market demand for our services.

A net decrease in other costs of service of $2.1 million, or 3.6%, from $57.2 million for the three months ended June 30, 2003, to $55.1 million for the three months ended June 30, 2004. The decrease in other costs of service is primarily attributable to savings achieved as a result of our office space reduction efforts, offset by an increase in costs associated with the overall growth of our business over the past year and an increase in bad debt expense. Other costs of service as a percentage of revenue declined slightly to 6.3% during the current period compared to 7.3% during the three months ended June 30, 2003.

During the three months ended June 30, 2004, we recorded, within the Corporate/Other operating segment, a charge of $8.4 million for lease, facilities and other exit costs related to our previously announced reduction in office space primarily within the North America, EMEA and Asia Pacific regions. We reduced our overall office space in an effort to eliminate excess capacity and to align our office space usage with our current workforce and the needs of the business. During the three months ended June 30, 2003, we recorded a $9.2 million charge for lease, facilities and other exit costs.

Gross profit as a percentage of revenue for our Public Services business unit declined to 28.2% in the three months ended June 30, 2004, from 30.2% in the three months ended June 30, 2003. This decline is principally due to a $44.1 million increase in other direct contract expenses as a result of our increased use of subcontractors, coupled with a $16.0 million increase in compensation expense. As mentioned above, the increase in our use of subcontractors is mainly the result of the mandated use of subcontractors on certain engagements. The increase in professional compensation expense is primarily due to an increase in our headcount in response to market demand for services and our continued effort to hire employees with the advanced information technology skills necessary to perform the services we offer.

Gross profit as a percentage of revenue for the Communications, Content and Utilities business unit decreased to 20.9% in the three months ended June 30, 2004 from 29.4% in the three months ended June 30, 2003. In dollar terms, gross profit decreased $9.6 million, or 43.7%, when compared to the prior year. The decline in gross profit was principally due to the decrease in revenue of $15.4 million resulting primarily from the completion of several large contracts involving testing related to compliance with the 1996 Telecommunications Act. Contracts involving testing related to compliance with the 1996 Telecommunications Act generally had higher levels of profitability than other contracts within the Communications, Content and Utilities business unit.

Gross profit as a percentage of revenue for the Financial Services business unit increased to 33.3% in the three months ended June 30, 2004 from 31.0% in the three months ended June 30, 2003. The increase in gross profit was principally due to a decrease in other direct contract expenses as a percentage of revenue from 18.8% during the three months ended June 30, 2003 to 13.8% during the current period.

Gross profit as a percentage of revenue for the Consumer, Industrial and Technology business unit declined to 23.6% in the three months ended June 30, 2004 from 29.7% in the three months ended June 30, 2003. In dollar terms, gross profit decreased $9.9 million, or 27.3%, when compared to the prior year. The decline in gross profit was principally due to the decrease in revenue resulting from the challenging economic conditions and cautious IT spending in this industry.

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Gross profit as a percentage of revenue for the EMEA business unit improved to 19.2% during the three months ended June 30, 2004, compared to 15.6% during the three months ended June 30, 2003. This improvement is primarily a result of a $23.8 million increase in revenue as well as a reduction in professional compensation expense as a percentage of revenue during the three months ended June 30, 2004. The decrease in professional compensation expense is a result of our workforce reduction actions taken in previous quarters. Gross profit improved despite the increased use of subcontractors during the three months ended June 30, 2004. The increase in our use of subcontractors is a result of our need to outsource certain types of skills in order to meet client requirements.

Gross profit as a percentage of revenue for the Asia Pacific business unit declined to 14.5%, for the three months ended June 30, 2004, compared to 16.9% for the three months ended June 30, 2003. This decline in gross profit was primarily the result of lower than expected revenue during the current period due to the decline in our average billing rates, coupled with increases in both other direct contract expenses and professional compensation expense. Other direct contract expenses and professional compensation expense have increased mainly due to the overall growth of our business throughout the region, which caused an increase in our use of subcontractors and overall headcount when compared to the prior period.

Gross profit as a percentage of revenue for Latin America declined to 23.7% during the three months ended June 30, 2004 compared to 31.9% during the three months ended June 30, 2003. This decline is primarily the result of a $6.0 million decrease in revenue as well as an increase in other costs of service as a percentage of revenue.

Amortization of Purchased Intangible Assets. Amortization of purchased intangible assets decreased $12.2 million to $1.0 million for the three months ended June 30, 2004, from $13.2 million for the three months ended June 30, 2003. This decrease relates to a significant portion of the purchased intangible assets acquired before December 31, 2002 being fully amortized by August 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $44.2 million, or 35.8%, from $123.6 million for the three months ended June 30, 2003, to $167.9 million for the three months ended June 30, 2004. Selling, general and administrative expenses as a percentage of gross revenue increased to 19.2% compared to 15.8% for the three months ended June 30, 2003. The increase in selling, general and administrative expenses is predominantly related to an increase in sales and infrastructure costs associated with the overall growth of our business over the past year as well as higher expenses related to audit fees, Sarbanes-Oxley compliance and the continued build-out of our internal IT function. This increase is partially offset by savings as we continue to wind down services provided under our transition services agreement with KPMG LLP.

Income Tax Expense. For the three months ended June 30, 2004, we earned income before taxes of $10.3 million and provided for income taxes of $32.7 million, resulting in an effective tax rate of 318.4%. For the three months ended June 30, 2003, we earned income before taxes of $27.9 million and provided for income taxes of $17.7 million, resulting in an effective tax rate of 63.5%. The effective tax rate varied from the U.S. Federal statutory tax rate for the three months ended June 30, 2004 primarily as a result of the impact of foreign recapitalization, the mix of income attributable to foreign versus domestic tax jurisdiction, changes in tax reserves, non-deductible meals and entertainment, and state and local taxes.

Net Income (Loss). For the three months ended June 30, 2004, we realized a net loss of $22.4 million, or ($0.11) per share. For the three months ended June 30, 2003, we realized net income of $10.2 million, or $0.05 per share.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Revenue. Revenue increased $156.4 million, or 9.7%, from $1,607.6 million during the six months ended June 30, 2003, to $1,764.0 million during the six months ended June 30, 2004. The increase in revenue was

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primarily attributable to a $120.6 million increase in revenue within our North America operating segments and a $27.4 million increase in revenue within our international operating segments. Our North America revenue of $1,227.0 million for the six months ended June 30, 2004 increased 10.9% when compared to the same period in the prior year. The increase in our North America revenue was primarily the result of strong growth in both our Public Services and Financial Services business units. Revenue from our international operations for the six months ended June 30, 2004 was $530.8 million, an increase of 5.4% when compared to the same period in the prior year. Revenue for our international regions increased predominantly due to the effect of currency exchange-rate fluctuations on reported revenue.

Public Services, the Company s largest business unit, generated revenue during the six months ended June 30, 2004 of $735.3 million, representing an increase of $175.7 million, or 31.4%, over the six months ended June 30, 2003. This increase was predominantly the result of growth in the Federal business sector. Overall, our Public Services business unit experienced increases in both engagement hours and billing rates of 14.3% and 14.9%, respectively. Revenue for our State, Local & Education (SLED) business sector decreased when compared to the prior year due to the completion of several large engagements and the gradual transition to new work.

The Communications, Content and Utilities business unit generated revenue of $122.4 million during the six months ended June 30, 2004, representing a decline of $41.7 million, or 25.4%, from the six months ended June 30, 2003. This decline was primarily the result of a decline in revenue in our Wireline sector due to our completion of several large contracts involving testing related to compliance with the 1996 Telecommunications Act and continued pricing pressures, as competition for new engagements has remained strong. While engaged on compliance testing contracts, certain clients decided to curtail the Company s involvement in non-compliance related projects.

Our Financial Services business unit generated revenue during the six months ended June 30, 2004 of $142.6 million, representing growth of $20.0 million, or 16.3%, over the six months ended June 30, 2003. This increase in revenue was principally due to a 34.7% increase in engagement hours and a 16.5% increase in utilization when compared to the same period in the prior year. Growth in the Financial Services business unit was predominantly in the Banking & Insurance sector. Although engagement hours and utilization increased, billing rates for the six months ended June 30, 2004 declined 13.7% when compared to the same period during the prior year as a result of pricing pressure from both our clients and competition in the Banking & Insurance and Global Markets sectors.

The Consumer, Industrial and Technology business unit generated revenue during the six months ended June 30, 2004 of $226.7 million, representing a decline of $33.5 million, or 12.9%, over the six months ended June 30, 2003. The decline was primarily the result of challenging economic conditions in the market segment over the past year, which have led to a decrease in technology spending and increased pricing pressures. Consumer, Industrial and Technology experienced a decline in engagement hours and average billing rates of 7.7% and 5.6%, respectively, when compared to the same period in the prior year.

The EMEA business unit generated revenue of $317.0 million during the six months ended June 30, 2004, representing growth of $20.1 million, or 6.8%, over the six months ended June 30, 2003. The reported revenue for our EMEA business unit is affected by currency exchange-rate fluctuations. Over the past year, the strengthening of foreign currencies (primarily the Euro) against the U.S. dollar has resulted in a favorable currency translation that has increased our reported U.S. dollar revenue when compared to the same period in the prior year. In constant currency terms, revenue for our EMEA business unit for the six months ended June 30, 2004 declined by approximately 3.9% when compared to the six months ended June 30, 2003. This decline was mainly due to overcapacity in the marketplace and weaker demand for work within the first three months of the period, offset by stronger performance and an increase in average billing rates during the final three months of the period.

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The Asia Pacific business unit generated revenue of $172.3 million during the six months ended June 30, 2004 representing growth of $8.3 million, or 5.0%, over the six months ended June 30, 2003. The reported revenue for our Asia Pacific business unit is affected by currency exchange-rate fluctuations. Over the past year, the strengthening of foreign currencies (primarily the Japanese Yen) against the U.S. dollar has resulted in a favorable currency translation that has increased our reported U.S. dollar revenue when compared to the same period in the prior year. During the six months ended June 30, 2004, the Asia Pacific business unit was engaged in a number of fixed fee projects where the average rate per hour was lower than the historical average for the region. As a result, in constant currency terms, revenue for our Asia Pacific business unit for the six months ended June 30, 2004 decreased by approximately 6.1% when compared to the six months ended June 30, 2003. The average rate per hour for these engagements, primarily in Australia, China and Japan, was lower than the historical average as a result of expending additional time and effort to deliver under our contractual arrangements than was initially planned. In addition, average billing rates were negatively impacted by significant investments made on certain engagements in an effort to position ourselves favorably for prospective work.

Our Latin America business unit generated revenue of $41.5 million during the six months ended June 30, 2004, representing a slight decline of $1.0 million, or 2.3%, over the six months ended June 30, 2003. Revenue for Latin America decreased as a result of increased market pressures, primarily in Mexico and Brazil. Currency exchange-rate fluctuations did not have a significant impact on our Latin America operations for the six month periods.

Gross Profit. Gross profit as a percentage of revenue declined to 18.6% for the six months ended June 30, 2004, compared to 21.0% for the six months ended June 30, 2003. This decline is mainly attributable to an increase in other direct contract expenses. Other direct contract expenses as a percentage of revenue increased to 31.1% during the six months ended June 30, 2004 compared to 24.3% during the six months ended June 30, 2003. In dollar terms, gross profit decreased by $9.0 million, or 2.7% from $337.3 million for the six months ended June 30, 2003, to $328.3 for the six months ended June 30, 2004. The decrease in gross profit for the six months ended June 30, 2004 compared to the same period in the prior year resulted primarily from the net impact of the following:

A net increase in professional compensation of $12.1 million, or 1.6%, from $738.1 million for the six months ended June 30, 2003, to $750.2 million for the six months ended June 30, 2004. The increase in professional compensation expense is primarily the result of hiring additional billable employees in response to overall market demand for services. Professional compensation expense improved as a percentage of revenue to 42.5% for the six months ended June 30, 2004 compared to 45.9% during the same period in the prior year.

A net increase in other direct contract expenses of $157.7 million, or 40.3%, from $391.3 million, or 24.3% of revenue, for the six months ended June 30, 2003, to $549.0 million, or 31.1% of revenue, for the six months ended June 30, 2004. The $157.7 million increase in other direct contract expenses is mainly attributable to our increased use of subcontractors, particularly in the Public Services and EMEA business units. Additionally, the increase in subcontractors and materials procurement costs negatively impacted gross margin, as the gross margin on revenue derived from other direct contract expenses is generally less profitable than the gross margin on revenue derived from services provided from our own workforce. Although we require subcontractors to handle specific requirements on some engagements, the majority of our subcontractor usage is not a skill-set issue, as many times clients mandate the use of certain subcontractors. In addition, the size and complexity of some of our projects make usage of subcontractors a key ingredient to winning the projects. We are focused on limiting the use of subcontractors and minimizing travel-related expenses whenever possible, working to increase our margins by complementing our solutions offerings with greater offshore capabilities, and increasing our hiring in order to align our skill base with the market demand for our services.

A net decrease in other costs of service of $1.1 million, or 0.9%, from $125.9 million for the six months ended June 30, 2003, to $124.8 million for the six months ended June 30, 2004. The decrease in other

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costs of service is primarily attributable to savings achieved as a result of our office space reduction efforts, offset by an increase in costs associated with the overall growth of our business over the past year. Other costs of service as a percentage of revenue decreased slightly from 7.8% during the six months ended June 30, 2003 to 7.1% during the six months ended June 30, 2004.

During the six months ended June 30, 2004, we recorded, within the Corporate/Other operating segment, a charge of $11.7 million for lease, facilities and other exit costs related to our previously announced reduction in office space primarily within the North America, EMEA and Asia Pacific regions. We reduced our overall office space in an effort to eliminate excess capacity and to align our office space usage with our current workforce and the needs of the business. During the six months ended June 30, 2003, we recorded a $15.0 million charge for lease, facilities and other exit costs.

Gross profit as a percentage of revenue for our Public Services business unit declined to 26.9% in the six months ended June 30, 2004, from 30.3% in the six months ended June 30, 2003. This decline is principally due to a $123.0 million increase in other direct contract expenses as a result of our increased use of subcontractors, coupled with a $21.7 million increase in compensation expense. The increase in our use of subcontractors is mainly the result of the mandated use of subcontractors on certain engagements. The increase in professional compensation expense is primarily due to an increase in our headcount in response to market demand for services and our continued effort to hire employees with the advanced information technology skills necessary to perform the services we offer.

Gross profit as a percentage of revenue for the Communications, Content, and Utilities business unit decreased to 19.1% in the six months ended June 30, 2004 from 28.4% in the six months ended June 30, 2003. In dollar terms, gross profit decreased $23.2 million, or 49.9%, when compared to the prior year. The decline in gross profit was principally due to a decrease in revenue of $41.7 million resulting primarily from the completion of several large contracts involving testing related to compliance with the 1996 Telecommunications Act. Contracts involving testing related to compliance with the 1996 Telecommunications Act generally had higher levels of profitability than other contracts within the Communications, Content and Utilities business unit.

Gross profit as a percentage of revenue for the Financial Services business unit decreased to 28.0% in the six months ended June 30, 2004 from 28.2% in the six months ended June 30, 2003. The decline in gross profit was principally due to an increase in other direct contract expenses of $2.2 million, or 9.3%, from the six months ended June 30, 2003 to the six months ended June 30, 2004. The increase in other direct contract expenses is mainly due to increases in travel expenses partially offset by a decrease in the use of subcontractors. In addition, gross profit for the Financial Services business unit was negatively impacted by an increase in professional compensation expense resulting from an increase in headcount, particularly in the Banking & Insurance sector.

Gross profit as a percentage of revenue for the Consumer, Industrial and Technology business unit declined to 21.9% in the six months ended June 30, 2004 from 27.8% in the six months ended June 30, 2003. In dollar terms, gross profit decreased $22.6 million, or 31.3%, when compared to the prior year. The decline in gross profit was principally due to the decrease in revenue resulting from the challenging economic conditions and cautious IT spending.

Gross profit as a percentage of revenue for the EMEA business unit improved to 14.7% during the six months ended June 30, 2004, compared to 14.2% during the six months ended June 30, 2003. This improvement is primarily a result of a $20.1 million increase in revenue as well as a decrease in professional compensation expense as a percentage of revenue during the six months ended June 30, 2004. The decrease in professional compensation expense as a percentage of revenue is a result of our workforce reduction actions taken in previous periods. Gross profit improved despite increased use of subcontractors during the six months ended June 30, 2004. The increase in our use of subcontractors is a result of our need to contract for certain types of skills in order to meet client requirements.

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Gross profit as a percentage of revenue for the Asia Pacific business unit declined to 15.8% during the six months ended June 30, 2004, compared to 16.5% for the six months ended June 30, 2003. This decline in gross profit was primarily the result of lower revenue during the current period due to the decline in our average billing rates, coupled with increased other direct contract expenses and professional compensation expense. Other direct contract expenses and professional compensation expense have increased mainly due to the overall growth of our business throughout the region, which caused an increase in our use of subcontractors and overall headcount when compared to the prior period.

Gross profit as a percentage of revenue for Latin America declined to 19.8% during the six months ended June 30, 2004 compared to 29.5% during the six months ended June 30, 2003. This decline is primarily the result of our increased use of subcontractors at key clients to satisfy the demands for our services.

Amortization of Purchased Intangible Assets. Amortization of purchased intangible assets decreased $23.6 million to $2.1 million for the six months ended June 30, 2004, from $25.6 million for the six months ended June 30, 2003. This decrease relates to a significant portion of the purchased intangible assets acquired before December 31, 2002 being fully amortized by August 2003.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $56.6 million, or 21.6%, from $261.9 million for the six months ended June 30, 2003, to $318.5 million for the six months ended June 30, 2004. This increase is predominantly related to an increase in sales and infrastructure costs associated with the overall growth of our business over the past year as well as higher expenses related to audit fees, Sarbanes-Oxley compliance and the continued build-out of our internal IT function. The increase is partially offset by savings as we continue to wind down services provided under our transition services agreement with KPMG LLP. Selling, general and administrative expenses as a percentage of gross revenue increased to 18.1% as compared to 16.3% for the six months ended June 30, 2003.

Income Tax Expense. For the six months ended June 30, 2004, we realized a loss before taxes of $4.8 million and provided for income taxes of $34.6 million, resulting in an effective tax rate of (714.3%). For the six months ended June 30, 2003, we earned income before taxes of $42.7 million and provided for income taxes of $29.7 million, resulting in an effective tax rate of 69.4%. The effective tax rate varied from the U.S. Federal statutory tax rate for the six months ended June 30, 2004 primarily as a result of the impact of foreign recapitalization, the mix of income attributable to foreign versus domestic tax jurisdiction, changes in tax reserves, non-deductible meals and entertainment, and state and local taxes.

Net Income (Loss). For the six months ended June 30, 2004, we realized net a loss of $39.4 million, or $0.20 per share. For the six months ended June 30, 2003, we realized net income of $13.1 million, or $0.07 per share.

Obligations and Commitments

As of June 30, 2004, we had the following obligations and commitments to make future payments under contracts, contractual obligations and commercial commitments:

		Payment due by period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**After 5 years**
			(in thousands)		
Long-term debt (1)	$ 321,295	$ 62,854	$ 109,469	$ 148,972	$
Operating leases	446,340	78,266	131,620	103,777	132,677
Outsourcing services agreement	14,063	11,250	2,813		
Reduction in workforce	700	700			
Total	$ 782,398	$ 153,070	$ 243,902	$ 252,749	$ 132,677

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(1) Long-term debt includes both principal and interest payment obligations.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows from operations, borrowings available under our various existing credit facilities and existing cash balances. At June 30, 2004, we had a cash balance of $136.1 million, which has increased by $13.6 million from a cash balance of $122.5 million at December 31, 2003.

Net cash provided by operating activities during the six months ended June 30, 2004 was $24.0 million, a decrease of $83.5 million over the six months ended June 30, 2003. This decrease was due to a $13.1 million change in operating assets and liabilities, as well as a $70.4 million decrease in cash operating results (which consists of net income adjusted for changes in deferred income taxes, provision for doubtful accounts, stock awards, depreciation and amortization, lease and facilities restructuring charges and other non-cash items). The change in operating assets and liabilities is primarily the result of the timing of our collection of accounts receivable, offset by the timing of our payments to vendors and the timing of employee benefit payments during the current period. Our days sales outstanding increased from 66 days at June 30, 2003 to 85 days at June 30, 2004. Days sales outstanding represents the trailing twelve months revenue divided by 365 days, which is divided into the consolidated accounts receivables, unbilled revenue and deferred revenue balances to arrive at days sales outstanding at a point in time. Our days sales outstanding increased during the period ended June 30, 2004 due to a delay in our billings process caused by the conversion of our North American financial accounting system.

Net cash used in investing activities during the six months ended June 30, 2004 was $37.1 million, due to purchases of property and equipment, including internal use software, incurred as part of our continued infrastructure build-out. Net cash used in investing activities decreased $29.3 million when compared to the six months ended June 30, 2003, resulting primarily from a higher level of spending on property and equipment during the six months ended June 30, 2003.

Net cash provided by financing activities for the six months ended June 30, 2004 was $28.9 million, due to proceeds from borrowings, net of repayments, of $29.4 million and $13.4 million received in exchange for the issuance of common stock primarily relating to our employee stock purchase plan, offset by a $14.0 million net decrease in book overdrafts. For the six months ended June 30, 2003, net cash used in financing activities was $4.6 million principally due to repayments of borrowings, net of proceeds, offset by proceeds received in exchange for the issuance of common stock primarily relating to our Employee Stock Purchase Plan.

We have a revolving credit facility with an outstanding balance of $38.0 million at June 30, 2004 (not to exceed $250.0 million). The $250.0 million revolving credit facility expires on May 29, 2005, and borrowings under this facility are not due until that time; however, management may choose to repay these borrowings at any time prior to that date. The revolving credit facility includes affirmative, negative and financial covenants, including, among others, covenants restricting our ability to incur liens and indebtedness, purchase our securities, and pay dividends and requiring us to maintain a minimum level of net worth ($907.4 million as of June 30, 2004), 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). In November 2003 and March 2004, we entered into two amendments to this credit facility, which among other things modified certain definitions that are used in the covenants and incorporated three additional covenants from the Senior Notes minimum consolidated net worth, minimum fixed charge coverage and maximum leverage ratio. These additional covenants are discussed in the following paragraph that relates to the Senior Notes. We are in compliance with the financial ratios, covenants and other restrictions imposed by the revolving credit facility. The revolving 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 our common stock, or (ii) if within a period of six calendar months, a majority of the officers of our executive committee cease to serve on our executive committee, and their terminations or departures materially affect our business. The revolving credit facility cross defaults in certain circumstances to our receivable purchase facility and Senior Notes and to our other debt.

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We also have an accounts receivable financing facility with no outstanding balance at June 30, 2004 (not to exceed $150.0 million). The accounts receivable facility is accounted for as a financing transaction; accordingly, it is not an off-balance sheet financing arrangement. The accounts receivable facility permits sales of accounts receivable through May 21, 2005, subject to annual renewal. Currently, we cannot access the accounts receivable facility until we deliver certain standard information packages that must be provided periodically under the terms of the accounts receivable facility. We are in the process of preparing the necessary information packages for delivery, which will be followed by a standard review of our books, records and certain documents by the administrator of the accounts receivable facility. The accounts receivable facility contains financial covenants that are consistent with our revolving credit facility and cross defaults in certain circumstances to our revolving credit facility and Senior Notes and to our other debt.

In November 2002, we completed a private placement of $220.0 million in aggregate principal 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 our ability to incur liens and indebtedness and purchase our securities, and requiring us to maintain a minimum level of net worth ($885.6 million as of June 30, 2004), maintain fixed charge coverage of at least 2.00 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, which apply in certain circumstances, to our revolving credit facility and receivables purchase facility and our other debt.

On January 31, 2003, our Japanese subsidiary entered into a 2 billion yen-denominated term loan. Scheduled principal payments are every six months through July 31, 2005 in the amount of 334.0 million yen and include a final payment of 330.0 million yen on January 31, 2006. The term loan is unsecured, does not contain any financial covenants, and is not guaranteed by us. At June 30, 2004, the balance outstanding under the 2 billion yen-denominated term loan was approximately 1.33 billion yen (approximately $12.2 million). In connection with this line of credit, we agreed to seek the consent of the lender prior to reducing our interest in the subsidiary-borrower below 100%.

On June 30, 2003, our Japanese subsidiary entered into a 1 billion yen-denominated term loan. Scheduled principal payments are every six months through December 31, 2005 in the amount of 167.0 million yen and include a final payment of 165.0 million yen on June 30, 2006. The term loan is unsecured, does not contain financial covenants, and is not guaranteed by us. At June 30, 2004, the balance outstanding under the 1 billion yen-denominated term loan was 666.0 million yen (approximately $6.1 million). In connection with this line of credit, we agreed to seek consent of the lender prior to reducing our interest in the subsidiary-borrower below 100%.

We have additional borrowing arrangements available through our Japanese subsidiary, including a 1.35 billion yen-denominated revolving line of credit facility (approximately $12.4 million as of June 30, 2004) and a 0.5 billion yen-denominated overdraft line of credit facility (approximately $4.6 million as of June 30, 2004). The facilities, which mature on August 31, 2004, are unsecured, do not contain financial covenants and are not guaranteed by us. As of June 30, 2004, there were no borrowings outstanding under the facilities.

Our liquidity may also be affected by our transition services agreement with KPMG LLP. Under the transition services agreement with KPMG LLP (which terminated on February 8, 2004 for most non-technology services and terminates no later than February 8, 2005 for technology-related services and certain non-technology related services), we contracted to receive certain infrastructure support services from KPMG LLP until we complete the build-out of our own infrastructure. If we terminate services prior to the end of the term for such services, we 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. We and KPMG LLP have agreed that during the term of the transition services agreement the parties will work together

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to minimize any termination costs (including transitioning personnel and contracts from KPMG LLP to our Company), and we will wind down our receipt of services from KPMG LLP and develop our own internal infrastructure and support capabilities or seek third party providers of such services.

Effective October 1, 2002, KPMG LLP and the Company 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 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.

Effective February 9, 2004, KPMG LLP and the Company entered into a Field Technology Support Services agreement under which KPMG LLP provides certain office-based technology support services to the Company s U.S. offices. Services under the Field Technology Support Services will be provided for a term of one year (with an option to renew for an additional year) and relate to services which previously were provided under the transition services agreement.

At this time there are no services that were terminated prior to June 30, 2004 for which termination costs remain unknown. The amount of termination costs that we will pay to KPMG LLP depends upon the timing of service terminations, the ability of the parties to work together to minimize the costs, and the amount of payments required under existing contracts with third parties for services provided to us by KPMG LLP and which can continue to be obtained directly by us thereafter. The amount of termination costs that we will pay to KPMG LLP under the transition services agreement with respect to services that are terminated after June 30, 2004 cannot be reasonably estimated at this time.

During fiscal year 2003, the Company purchased certain leasehold improvements from KPMG LLP that had been used by the Company under the transition services agreement. The Company is charged for the use of capital assets by usage charges that are included in the monthly costs under the transition services agreement. The Company made no additional purchases of capital assets from KPMG LLP during the three months ended June 30, 2004.

During the first half of fiscal year 2003, we significantly expanded our international operations through acquisitions. Some of our acquired operations had pre-existing defined benefit pension plans, and as such we have become the sponsor of these plans. We use the actuarial models required by SFAS No. 87, Employers Accounting for Pensions, to account for our pension plans. Our pension plans include both funded and unfunded noncontributory defined benefit pension plans that provide benefits based on years of service and salary. We also sponsor an unfunded postretirement medical plan.

In the normal course of business, we have indemnified third parties and have commitments and guarantees under which we may be required to make payments in certain circumstances. These indemnities, commitments and guarantees include: indemnities of KPMG LLP with respect to the consulting business that was transferred to us in January 2000; indemnities to third parties in connection with surety bonds; indemnities to various lessors in connection with facility leases; indemnities to customers related to intellectual property and performance of services subcontracted to other providers; and indemnities to directors and officers under the organizational documents of the Company. The duration of these indemnities, commitments and guarantees varies, and in certain cases, is indefinite. Certain of these indemnities, commitments and guarantees do not provide for any limitation of the maximum potential future payments we could be obligated to make. As of June 30, 2004, we have approximately $191.8 million of outstanding surety bonds and $34.2 million of outstanding letters of credit for which we may be required to make future payment. The estimated fair value of these agreements is minimal. Accordingly, no liabilities have been recorded for these agreements as of June 30, 2004.

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We continue to actively manage client billings and collections and maintain tight controls over discretionary spending. We believe 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. We also believe that we will generate enough cash from operations, have sufficient borrowing capacity under the various existing credit facilities (including the $250 million revolving credit facility) and have sufficient access to the capital markets to meet our long-term liquidity needs.

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.

Forward-looking statements in this report include, among others, statements regarding:

- our growth projections for our geographic regions and business segments;
- our ability to maintain our margins;
- our ability to decrease our use of subcontractors;
- our expectation to focus on growth initiatives to improve market share and increase revenue;
- our estimate of approximately 50% as the effective tax rate for fiscal year 2004;
- our estimates of the amount and effect of the termination costs under the transition services agreement with KPMG LLP;
- our anticipated reduction in occupancy costs for the fiscal year 2004;
- our expectations for short- and long-term liquidity; and
- our hiring expectations over the next few quarters.

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

- any continuation of the global economic downturn and challenging economic conditions;

the business decisions of our clients regarding the use of our services and the related need to use subcontractors to complete certain engagements;

the timing of projects and their termination;

the availability of surety bonds, letters of credit or bank guarantees supporting client engagements;

the impact of rating agency actions;

the availability of talented professionals to provide our services;

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- the pace of technology change;
- the strength of our joint marketing relationships;
- the actions of our competitors;
- unexpected difficulties with our global initiatives and acquisitions (such as the acquisition of BearingPoint GmbH), including rationalization of assets and personnel and managing or integrating the related assets, personnel or businesses;
- changes in spending policies or budget priorities of the U.S. government, particularly the Department of Defense, in light of the large U.S. budget deficit;
- our inability to use losses in some of our foreign subsidiaries to offset earnings in the United States;
- our inability to accurately forecast our results of operations and the growth of our business; and
- changes in, or the application of changes to, accounting principles or pronouncements under accounting principles generally accepted in the United States, particularly those related to revenue recognition.

In addition, our results and forward-looking statements could be affected by general domestic and international economic and political conditions, 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, Factors Affecting Future Financial Results, to the Annual Report on Form 10-K for the year ended December 31, 2004 (filed with the SEC on January 31, 2006). 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

For a discussion of our market risk associated with the Company s market sensitive financial instruments as of December 31, 2003, see Quantitative and Qualitative Disclosures About Market Risk in Part II, Item 7A, of the Company s Transition Report on Form 10-K for the period then ended. During the six months ended June 30, 2004, there have been no material changes in our market risk exposure.

PART I, ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of June 30, 2004 and December 31, 2004, management performed as of each such date, with the participation of our chief executive officer (who is also the chief financial officer) and our chief accounting officer, an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act). Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer/chief financial officer, to allow timely decisions regarding required disclosures. Based on the evaluation and the identification of the material weaknesses in internal control over financial reporting described below, as well as our inability to file our 2004 Form 10-K within the statutory time period and the necessity of filing this amendment to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, management concluded that, as of December 31, 2004 and June 30, 2004, the Company s disclosure controls and procedures were not effective.

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Because of the material weaknesses identified in our evaluation of internal control over financial reporting described below, we performed additional procedures so that our consolidated financial statements for all accounting periods beginning with the fiscal year ended June 30, 2002 and through the year ended December 31, 2004, including quarterly periods, and the Selected Financial Data for all accounting periods beginning with the five-month period ended June 30, 2000 and through the year ended December 31, 2004, are presented in accordance with generally accepted accounting principles in the United States of America (GAAP). Our procedures included, but were not limited to: i) reconstructing North America revenue and related accounts, such as accounts receivable, unbilled revenue, deferred revenue and costs of service for the year ended December 31, 2004 by validating data to independent source documentation and reassessing original judgments we made about revenue accounting; ii) performing a comprehensive search for unrecorded liabilities at December 31, 2004 and performing other substantive procedures for all years since inception; iii) performing a comprehensive global search to identify the complete population of employees deployed on expatriate assignments during 2004, 2003 and 2002 and recalculating related compensation expense classified as costs of service, and employee income tax liabilities for such periods; iv) performing additional closing procedures, including detailed reviews of journal entries, re-performance of account reconciliations and analyses of balance sheet accounts; and v) performing procedures in other areas requiring restatement adjustments, including leases, property and equipment, and intercompany loans and income taxes.

These and other procedures resulted in the identification of accounting and audit adjustments related to our consolidated financial statements for the year ended December 31, 2004 and our consolidated condensed financial statements for the quarter ended June 30, 2004, which necessitated the filing of this Report on Form 10-Q/A for the quarter ended June 30, 2004. These adjustments also required us to restate our previously filed consolidated financial statements and related Selected Financial Data as of and for the six-month period ended December 31, 2003; and for the fiscal years ended June 30, 2003 and 2002; and our condensed consolidated financial statements for the quarterly periods during the year ended December 31, 2004; and the fiscal year ended June 30, 2003. We refer to these periods as the Restated Periods. In addition, we restated the Selected Financial Data for the fiscal year ended June 30, 2001 and the five-month period ended June 30, 2000. The amounts included in Management s Discussion and Analysis and other disclosures in this Quarterly Report on Form 10-Q/A have also been restated for all Restated Periods presented. Restatement adjustments are further described in Note 2: Restatement of the Notes to Consolidated Condensed Financial Statements included within this Form 10-Q/A.

We believe that because we performed the substantial additional procedures described above and made appropriate adjustments, the consolidated condensed financial statements for the periods included in this Quarterly Report on Form 10-Q/A are fairly stated in all material respects in accordance with GAAP.

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In addition, in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act, management conducted, with the participation of our chief executive officer/chief financial officer and our chief accounting officer, an assessment, including testing, of the effectiveness of our internal control over financial reporting as of December 31, 2004. In making our assessment, management has reviewed and considered the findings of the Audit Committee Investigation in the preparation of this Form 10-Q/A. The Audit Committee Investigation is described in Item 1, Business Certain Developments in Late 2004, 2005 and 2006 Audit Committee

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Investigation to the 2004 Form 10-K. Management s assessment of internal control over financial reporting was conducted using the criteria in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. In connection with management s assessment of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, we identified the following material weaknesses in our internal control over financial reporting as of December 31, 2004, which existed as of June 30, 2004.

1. We did not maintain an effective control environment over financial reporting. Specifically, we identified the following material weaknesses:

Senior management did not establish and maintain a proper tone as to internal control over financial reporting. Specifically, senior management did not emphasize, through consistent communication, the importance of internal control over financial reporting and adherence to the code of business conduct and ethics.

We did not maintain a sufficient complement of personnel, either in our corporate offices or foreign locations with an appropriate level of knowledge, experience and training in the application of GAAP and in internal controls over financial reporting commensurate with our financial reporting requirements.

We did not maintain sufficient formalized and consistent finance and accounting policies and procedures nor did we maintain adequate controls with respect to the review, supervision and monitoring of our accounting operations at certain foreign locations. Specifically, we failed to prevent or detect instances of non-compliance with established policies and procedures, as well as instances of non-compliance with laws and regulations, including improper conduct in our Asia Pacific operations which resulted in adjustments to our consolidated 2004 financial statements.

We did not establish and maintain, through our senior management, sufficient oversight and communication of internal controls to ensure the proper use of the North America financial accounting system, implemented during 2004. Specifically, we did not enforce the consistent performance of manual controls designed to complement system controls. As a result, transactions and data were not completely and accurately recorded, processed and reported in the financial statements.

We did not have adequate procedures or sufficient monitoring by management to ensure that actual or perceived violations of our policies and procedures could be reported through the whistleblower hotline or other channels. In addition, we did not have sufficient procedures to ensure the appropriate notification, investigation, resolution and remediation procedures were applied to reported violations.

The material weaknesses in our control environment described above contributed to the existence of the material weaknesses discussed in items 2 through 9 below. Additionally, these material weaknesses could result in a misstatement to substantially all our financial statement accounts that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

2. We did not maintain effective controls, including monitoring, over our financial close and reporting process. Specifically, we identified the following material weaknesses in the financial close and reporting process:

We did not maintain formal, written policies and procedures governing the financial close and reporting process.

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We did not maintain effective controls to ensure that management oversight and review procedures were properly performed over the accounts and disclosures in our financial statements. In addition, we did not maintain effective controls to ensure adequate management reporting information was available to monitor financial statement accounts and disclosures.

We did not maintain effective controls over the recording of recurring and non-recurring journal entries. Specifically, effective controls were not designed and in place to provide reasonable assurance that journal entries were prepared with sufficient supporting documentation and reviewed and approved to ensure the completeness and accuracy of the entries recorded.

We did not maintain effective controls to provide reasonable assurance that accounts were complete and accurate and agreed to detailed support and that reconciliations of accounts were properly performed, reviewed and approved.

We did not maintain effective controls to provide reasonable assurance that intercompany loans were properly classified based on management s intent for repayment and that the related foreign currency translation amounts were accurately recorded and reported in the consolidated financial statements.

These material weaknesses contributed to the material weaknesses identified in items 3 through 9 below and resulted in adjustments, including audit adjustments, to our consolidated financial statements for the year ended December 31, 2004 and to the restatement of our consolidated financial statements as of and for the six-month period ended December 31, 2003; our consolidated financial statements for the fiscal years ended June 30, 2003 and 2002; and our consolidated condensed financial statements for the quarterly periods during the year ended December 31, 2004; the six-month period ended December 31, 2003; and the fiscal year ended June 30, 2003 (the Restated Periods). Additionally, these material weaknesses could result in a misstatement to substantially all of our financial statement accounts that would result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected.

3. We did not design and maintain effective controls over the completeness, accuracy, existence, valuation and disclosure of revenue, costs of service, accounts receivable, unbilled revenue, and deferred revenue. Specifically, we identified the following material weaknesses:

We did not design and maintain effective controls to provide reasonable assurance over the initiation, recording, processing, and reporting of customer contracts, including the existence of and adherence to policies and procedures and adequate monitoring by management.

We did not design and maintain effective controls to provide reasonable assurance that contract costs, such as engagement subcontractor costs, were completely and accurately accumulated for contracts accounted for under the percentage-of-completion method of accounting.

We did not design and maintain effective controls to provide reasonable assurance that we adequately evaluated customer contracts to identify and provide reasonable assurance regarding the proper application of the appropriate method of revenue recognition in accordance with GAAP.

We did not design and maintain effective controls to provide reasonable assurance regarding the completeness of information recorded in the financial accounting system. Specifically, we did not design and have in place effective controls to provide reasonable assurance that invoices issued outside of the financial accounting system were appropriately recorded in the general ledger. As a result, we did not ensure that cash received was applied to the correct accounts in the appropriate accounting period.

4. We did not design and maintain effective controls over the completeness, accuracy, existence, valuation, and disclosure of our accounts payable, other current liabilities, other long-term liabilities and related expense accounts. Specifically, we did not design and maintain effective controls over the initiation, authorization, processing, recording, and reporting of purchase orders and invoices as well as authorizations for cash

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disbursement to provide reasonable assurance that liability balances and operating expenses were accurately recorded in the appropriate accounting period and to prevent or detect misappropriation of assets. In addition, we did not have effective controls to: i) provide reasonable assurance regarding the complete identification of subcontractors used in performing services to our customers; or ii) monitor subcontractor activities and accumulation of subcontractor invoices to provide reasonable assurance regarding the complete and accurate recording of contract-related subcontractor costs.

5. We did not maintain effective controls over the completeness and accuracy of compensation expense, classified as costs of service. Specifically, we did not maintain effective controls to identify and monitor employees working outside their resident state for extended periods of time or their home country. In addition, we did not maintain effective controls to completely and properly calculate the related compensation expense and employee income tax liability attributable to each tax jurisdiction.

6. We did not design and maintain effective controls over the completeness, accuracy, valuation, and disclosure of our payroll, employee benefit and other compensation liabilities and related expense accounts. Specifically, we did not have effective controls designed and in place to provide reasonable assurance of the initiation, recording, processing, and reporting of payroll costs including bonus, health and welfare and severance amounts in the accounting records. Additionally, we did not design and maintain effective controls over the administration of employee data or controls to provide reasonable assurance regarding the proper authorization of non-recurring payroll changes.

7. We did not design and maintain effective controls over the completeness, accuracy, existence, valuation and disclosure of property and equipment and related depreciation and amortization expense. Specifically, we did not design and maintain effective controls to provide reasonable assurance that asset additions and disposals were completely and accurately recorded; depreciation and amortization expense was accurately recorded based on appropriate useful lives assigned to the related assets; existence of assets was confirmed through periodic inventories; and the identification and determination of impairment losses was performed in accordance with GAAP. In addition, we did not design and maintain effective controls to provide reasonable assurance of the adherence to our capitalization policy, and we did not design and maintain effective controls to provide reasonable assurance that expenses for internally developed software were completely and accurately capitalized, amortized, and adjusted for impairment in accordance with GAAP.

8. We did not design and maintain effective controls over the completeness, accuracy, valuation, and disclosure of our prepaid lease and long-term lease obligation accounts and the related amortization and lease rental expenses. Specifically, we did not design and maintain effective controls to provide reasonable assurance that new, amended, and terminated leases, and the related assets, liabilities and expenses associated with rent holidays, escalation clauses, landlord/tenant incentives and asset retirement obligations, were reviewed, approved, and accounted for in accordance with GAAP.

9. We did not design and maintain effective controls over the completeness, accuracy, existence, valuation and presentation and disclosure of our income tax payable, deferred income tax assets and liabilities, the related valuation allowance and income tax expense. Specifically, we identified the following material weaknesses:

We did not maintain effective controls over the reconciliation of the tax and financial reporting bases of our assets and liabilities with our deferred income tax assets and liabilities. We also did not maintain effective controls to identify and determine permanent differences between our income for tax and financial reporting income purposes.

We did not maintain effective controls, including monitoring, over the calculation and recording of foreign income taxes, including tax reserves, acquired tax contingencies associated with business

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combinations and the income tax impact of foreign debt recapitalization. In addition, we did not maintain effective controls over determining the correct foreign jurisdictions or tax treatment of certain foreign subsidiaries for United States tax purposes.

We did not design and maintain effective controls over withholding taxes associated with interest payable on intercompany loans and intercompany trade payables between various tax jurisdictions.

Each of the control deficiencies discussed in items 3 through 9 above resulted in adjustments, including audit adjustments, to our consolidated financial statements for the year ended December 31, 2004 and to the restatement of our consolidated financial statements for the Restated Periods. Additionally, these control deficiencies could result in misstatements of the aforementioned financial statement accounts that would result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that each of the control deficiencies in items 3 through 9 above constitutes a material weakness.

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Because of the material weaknesses described above, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2004, which existed as of June 30, 2004, based on the *Internal Control Integrated Framework* issued by COSO.

Remediation of Material Weaknesses in Internal Control over Financial Reporting

We have engaged in, and continue to engage in, substantial efforts to address the material weaknesses in our internal control over financial reporting and the ineffectiveness of our disclosure controls and procedures. It is management s goal to remediate the material weaknesses in 2006. The following paragraphs describe the on-going changes to our internal control over financial reporting subsequent to December 31, 2004 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting:

We significantly strengthened our executive management ranks, including the appointment of a new Chief Executive Officer (Q1 05), Chief Operating Officer (Q1 05), Chief Accounting Officer (Q3 05), Corporate Controller (Q4 05) and a Corporate Tax Director (Q1 06). Additionally, we appointed a Senior Controller within our Public Service line of business (Q1 06). Additionally, we replaced the regional and certain country-level leaders in our Asia Pacific region.

We have strengthened our executive management s ongoing communication regarding the importance of adherence to internal controls and company policies.

During the first quarter of 2005, in order to formalize and centralize our risk management process we created a centralized Risk Office, lead by our Chief Risk Officer, reporting directly to the Audit Committee. The Compliance and Internal Audit departments as well as Enterprise and Quality Risk Management report to the Chief Risk Officer. The Chief Risk Officer retired as of December 31, 2005 and an interim Chief Risk Officer has been appointed until a permanent replacement is identified. Additionally, as of February 28, 2006, our Director of Internal Audit resigned and we have appointed an interim Director of Internal Audit to manage our current outsourced internal audit function and build the capability in-house.

During the third quarter of 2005, we established a worldwide policies and procedures review process within the Office of the CEO. We are identifying a list of key policies and procedures that we expect to revise, create and apply on a global basis. Additionally, we expect to ensure proper communication and training so that policies and procedures are consistently implemented and can be monitored effectively.

During the second quarter of 2005, we began implementing a finance transformation program. This program is designed to develop and implement remediation strategies to address the material weaknesses, improve operational performance of our finance and accounting processes and underlying

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information systems, establish greater organizational accountability and lines of approval, and develop an organizational model that better supports our redesigned processes and operations. This effort will be supported by the addition of significant resources and expertise to our accounting and finance organization.

During 2005, we substantially improved our compliance hotline and enhanced our investigative procedures surrounding the detection and resolution of internal control overrides. Third-party legal and accounting resources have also been retained to perform in depth reviews of issues in a timely manner. Additionally, investigation of internal control overrides has been given more visibility at the senior management and Audit Committee level.

We reorganized and committed substantial resources (employees and outside accounting professionals and consultants) to our finance, accounting and tax departments. We have identified the required competencies and we continue to staff the finance, accounting and tax functions in accordance with those required competencies.

During the fourth quarter of 2005, we began to implement a significant Program Control function in North America designed to support the timely assembly and review of revenue and other contract cost elements as part of our quarterly and annual closing procedures. This function consists of individuals with a variety of experience and expertise in complex revenue recognition accounting, government contracting, internal controls and audit functions.

During 2005, we established a broad internal contract review process to review all aspects of contract accounting and reporting for all contracts in North America. In addition, we designed improvements to our contract set-up procedures and to our controls over billings sent to our customers.

During 2005, we provided additional training materials to all of our employees regarding the estimate to complete process and revenue recognition. Our Public Services Business Unit also conducted government compliance training for all employees including timekeeping certification.

Management is currently in the process of evaluating our internal controls over financial reporting as of December 31, 2005 as prescribed by Section 404 of the Sarbanes-Oxley Act of 2002. The remediation efforts noted above are subject to the Company s internal control assessment, testing and evaluation processes. While these efforts continue, we will rely on additional substantive procedures and other measures as needed to assist us with meeting the objectives otherwise fulfilled by an effective control environment. As a result, we expect that our internal control over financial reporting will not be effective as of December 31, 2005.

Changes in Internal Control over Financial Reporting

Except as otherwise discussed herein, there have been no changes in our internal control over financial reporting during the quarter ended June 30, 2004 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

PART II, ITEM 1. LEGAL PROCEEDINGS

As previously disclosed, since August 14, 2003, various separate complaints purporting to be class actions were filed in the United States District Court for the Eastern District of Virginia alleging that we and certain of our officers violated Section 10(b) of the Securities Exchange Act of 1934 (the Exchange Act), Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act. The complaints contain varying allegations, including that the Company made materially misleading statements with respect to its financial results for the first three quarters of fiscal year 2003 in its SEC filings and press releases. The Plaintiffs Amended Consolidated Complaint was filed on December 31, 2003. Defendants Motion to Dismiss was filed on February 10, 2004. On March 31, 2004, the parties filed a stipulation requesting that the Court approve a settlement of this matter for $1.7 million, all of which is to be paid by the Company s insurer. On April 2, 2004, the Court considered and gave preliminary approval to the proposed settlement. Notice of the proposed settlement has been sent to the purported class of shareholders. The Court gave final approval to the proposed settlement on July 16, 2004.

In addition to the matters referred to above, 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 adverse effect on our financial position, results of operations or cash flows. Additional information regarding our legal proceedings is incorporated by reference herein from Note 11, Commitments and Contingencies, of the Notes to Consolidated Condensed Financial Statements in this Form 10-Q/A.

PART II, ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In August 2001, the Board of Directors authorized the Company to repurchase up to $100 million of its common stock. As of June 30, 2004, the Company had repurchased 3,812,250 shares of its common stock at an aggregate purchase price of $35.7 million. Thus, the Company is authorized to repurchase an additional $64.3 million of its common stock. The repurchased shares are held in treasury. The Company did not repurchase any of its common stock during the six month period ended June 30, 2004.

PART II, ITEM 3. NONE

PART II, ITEM 4. NONE

PART II, ITEM 5. NONE

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

(a) Exhibits

10.1	Amendment No. 1 to Amended and Restated 401(k) Plan, dated April 29, 2004, which is incorporated herein by reference to Exhibit 10.20 from the Company s Registration Statement on Form S-1/A (Registration No. 333-100199) (referred below as the Company s Form S-1/A).
10.2	Irrevocable Waiver, dated May 17, 2004, by Cisco Systems, Inc. with respect to the Investor Rights Agreement, dated January 31, 2000 and the Stock Purchase Agreement, dated December 29, 1999, which is incorporated herein by reference to Exhibit 10.49 of the Company s Form S-1/A.
10.3	Amendment No. 1 to the Amended and Restated Receivables Purchase Agreement, dated as of May 21, 2004, among KCI Funding Corporation, BearingPoint, Inc., Market Street Funding Corporation, PNC Bank, National Association, Three Rivers Funding Corporation, Mellon Bank, N.A. and PNC, which is incorporated herein by reference to Exhibit 10.50 of the Company s Form S-1/A.
31.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350.
99.1	Factors Affecting Future Financial Results, which is incorporated herein by reference to Exhibit 99.1 from the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 (filed on January 31, 2006).

(b) Reports of Form 8-K

During the quarter ended June 30, 2004, the Company filed the following Current Reports on Form 8-K:

On April 21, 2004, a Current Report on Form 8-K was filed, reporting under Item 12 that the Company issued a press release announcing its financial results for the transition period from July 1, 2003 to December 31, 2003.

On May 6, 2004, a Current Report on Form 8-K was filed, reporting under Item 12 that the Company issued a press release announcing its financial results for the quarter ended March 31, 2004.

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SIGNATURES

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

BEARINGPOINT, INC.

DATE: March 10, 2006 By: /s/ HARRY L. YOU
Harry L. You

Chief Executive Officer and Chief Financial Officer

DATE: March 10, 2006 By: /s/ JUDY A. ETHELL
Judy A. Ethell

Executive Vice President and Chief Accounting Officer

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Exhibit Index

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