

BEARINGPOINT INC
Form 10-Q/A
March 10, 2006
Table of Contents

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 March 31, 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
(State or other jurisdiction of
incorporation or organization)

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

22-3680505
(IRS Employer
Identification No.)

22102
(Zip Code)

(703) 747-3000

(Registrant's telephone number, including area code)

(Former name, if changed since last report)

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

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

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

The number of shares of common stock of the Registrant outstanding as of April 30, 2004 was 196,423,647.

Table of Contents

BEARINGPOINT, INC.

QUARTERLY REPORT ON FORM 10-Q/A

FOR THE QUARTER ENDED MARCH 31, 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 March 31, 2004, as originally filed by the Company on May 10, 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 months ended March 31, 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 months ended March 31, 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 March 31, 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.

Table of Contents

BEARINGPOINT, INC.
QUARTERLY REPORT ON FORM 10-Q/A
FOR THE QUARTER ENDED MARCH 31, 2004
TABLE OF CONTENTS

	Page
<u>PART I FINANCIAL INFORMATION</u>	
Item 1: <u>Financial Statements (unaudited) (restated)</u>	4
<u>Consolidated Condensed Statements of Operations for the Three Months Ended March 31, 2004 and 2003</u>	4
<u>Consolidated Condensed Balance Sheets as of March 31, 2004 and December 31, 2003</u>	5
<u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended March 31, 2004 and 2003</u>	6
<u>Notes to Consolidated Condensed Financial Statements</u>	7
Item 2: <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	24
Item 3: <u>Quantitative and Qualitative Disclosure about Market Risk</u>	42
Item 4: <u>Controls and Procedures</u>	42
<u>PART II OTHER INFORMATION:</u>	
Item 1: <u>Legal Proceedings</u>	48
Item 2: <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
Item 5: <u>Other Information.</u>	48
Item 6: <u>Exhibits and Reports on Form 8-K.</u>	49
<u>SIGNATURES</u>	50

Table of Contents**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	
	2004	2003
	March 31,	March 31,
	(as restated)	(as restated)
Revenue	\$ 888,603	\$ 826,685
Costs of service:		
Professional compensation	378,440	381,686
Other direct contract expenses	294,242	201,413
Lease and facilities restructuring charges	3,335	5,769
Other costs of service	69,732	68,768
Total costs of service	745,749	657,636
Gross profit	142,854	169,049
Amortization of purchased intangible assets	1,095	12,403
Selling, general and administrative expenses	150,637	138,258
Operating income (loss)	(8,878)	18,388
Interest income	205	446
Interest expense	(4,409)	(4,783)
Other income (expense), net	(2,026)	760
Income (loss) before taxes	(15,108)	14,811
Income tax expense	1,902	11,920
Net income (loss)	\$ (17,010)	\$ 2,891
Earnings (loss) per share basic and diluted:	\$ (0.09)	\$ 0.02
Weighted average shares basic	195,258,684	190,287,455
Weighted average shares diluted	195,258,684	190,327,222

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

Table of Contents**BEARINGPOINT, INC.****CONSOLIDATED CONDENSED BALANCE SHEETS**

(in thousands, except share amounts)

(unaudited)

	March 31, 2004 (as restated)	December 31, 2003 (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 116,231	\$ 122,475
Accounts receivable, net	394,989	357,653
Unbilled revenue	362,606	315,431
Income tax receivable	24,942	22,942
Deferred income taxes	65,064	57,976
Prepaid expenses and other current assets	80,648	52,640
Total current assets	1,044,480	929,117
Property and equipment, net	197,917	199,517
Goodwill	974,946	991,347
Other intangible assets, net	6,989	8,156
Deferred income taxes, less current portion	59,327	59,568
Other assets	29,387	23,908
Total assets	\$ 2,313,046	\$ 2,211,613
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of notes payable	\$ 9,614	\$ 9,345
Accounts payable	281,807	232,577
Accrued payroll and employee benefits	227,126	217,965
Deferred revenue	60,587	74,378
Income tax payable	58,567	48,886
Current portion of accrued lease and facilities charge	22,408	22,048
Deferred income taxes	7,502	10,917
Other current liabilities	123,655	117,178
Total current liabilities	791,266	733,294
Notes payable, less current portion	298,060	238,883
Accrued employee benefits	64,136	62,821
Accrued lease and facilities charge, less current portion	32,144	33,850
Deferred income taxes, less current portion	8,862	11,073
Other liabilities	66,348	61,697
Total liabilities	1,260,816	1,141,618
Commitments and contingencies (Note 11)		
Stockholders equity :		
Preferred Stock, \$.01 par value 10,000,000 shares authorized	1,992	1,973

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

Common Stock, \$.01 par value 1,000,000,000 shares authorized, 200,207,400 shares issued and 196,395,150 shares outstanding on March 31, 2004 and 198,295,364 shares issued and 194,483,114 shares outstanding on December 31, 2003

Additional paid-in capital	1,121,747	1,105,631
Accumulated deficit	(233,340)	(216,330)
Notes receivable from stockholders	(8,995)	(9,114)
Accumulated other comprehensive income	206,553	223,562
Treasury stock, at cost (3,812,250 shares)	(35,727)	(35,727)
Total stockholders' equity	1,052,230	1,069,995
Total liabilities and stockholders' equity	\$ 2,313,046	\$ 2,211,613

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

Table of Contents**BEARINGPOINT, INC.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

	Three Months Ended	
	2004	2003
	(as restated)	(as restated)
Cash flows from operating activities:		
Net income (loss)	\$ (17,010)	\$ 2,891
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Deferred income taxes	(12,538)	(7,809)
Provision (benefit) for doubtful accounts	1,477	(6,390)
Stock awards	2,336	3,379
Depreciation and amortization of property and equipment	19,019	19,511
Amortization of purchased intangible assets	1,095	12,403
Lease and facilities restructuring charges	3,335	5,769
Other	854	(654)
Changes in assets and liabilities:		
Accounts receivable	(40,008)	103,517
Unbilled revenue	(47,820)	(80,737)
Income tax receivable, prepaid expenses and other current assets	(7,354)	(41,913)
Other assets	(4,901)	536
Accrued payroll and employee benefits	9,922	(19,827)
Accounts payable and other current liabilities	25,970	(28,330)
Other liabilities	2,888	(2,664)
Net cash used in operating activities	(62,735)	(40,318)
Cash flows from investing activities:		
Purchases of property and equipment	(18,249)	(25,425)
Businesses acquired, net of cash acquired		(2,779)
Net cash used in investing activities	(18,249)	(28,204)
Cash flows from financing activities:		
Proceeds from issuance of common stock	13,052	15,242
Proceeds from notes payable	163,150	206,173
Repayment of notes payable	(104,265)	(175,400)
Payments on notes receivable from stockholders	119	
Increase (decrease) in book overdrafts	3,134	(989)
Net cash provided by financing activities	75,190	45,026
Effect of exchange rate changes on cash and cash equivalents	(450)	601
Net decrease in cash and cash equivalents	(6,244)	(22,895)
Cash and cash equivalents beginning of period	122,475	83,468

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

Cash and cash equivalents end of period	\$ 116,231	\$ 60,573
---	------------	-----------

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

Table of Contents

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 months ended March 31, 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 three months ended March 31, 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 three months ended March 31, 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.

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

Table of Contents

BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

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

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

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 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.

Table of Contents

BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

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.

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

Table of Contents

BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

(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.

Table of Contents**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 months ended March 31, 2004 and 2003:

	Three Months Ended	
	March 31, 2004	March 31, 2003
Net income as previously reported	\$ 1,624	\$ 4,141
Restatement adjustments (pretax):		
Accounting for customer contracts	(6,396)	(1,537)
Revenue recognition related to Australia	123	(64)
Intercompany loan classifications	(928)	232
Accounting for lease and facilities charges	(493)	(485)
Accounting for employee global mobility and tax equalization	(5,252)	(1,417)
Accounting for property and equipment	(1,439)	(58)
Adjustments for accounts payable, accrued expenses and expense cut-off	(11,119)	2,986
Other adjustments	874	442
Total net restatement adjustments (pre-tax)	(24,630)	99
Tax effect of restatement adjustments above	8,846	(365)
Errors related to accounting for income taxes	(2,850)	(984)
Total taxes	5,996	(1,349)
Total net restatements adjustments	(18,634)	(1,250)
Net income (loss) as restated	\$ (17,010)	\$ 2,891
Earnings (loss) per share basic:		
Basic earnings per share as originally reported	\$ 0.01	\$ 0.02
Effect of net adjustments	(0.10)	
Basic earnings (loss) per share as restated	\$ (0.09)	\$ 0.02
Earnings (loss) per share diluted:		
Diluted earnings per share as originally reported	\$ 0.01	\$ 0.02
Effect of net adjustments	(0.10)	
Diluted earnings (loss) per share as restated	\$ (0.09)	\$ 0.02

Table of Contents**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 months ended March 31, 2004 and 2003 and the consolidated condensed balance sheet at March 31, 2004:

	Three Months Ended			Three Months Ended		
	March 31, 2004			March 31, 2003		
	As Reported	Restatement Effect of	As Restated	As Reported	Restatement Effect of	As Restated
Revenue	\$ 861,041	\$ 27,562	\$ 888,603	\$ 818,870	\$ 7,815	\$ 826,685
Cost of service:						
Professional compensation	375,742	2,698	378,440	379,682	2,004	381,686
Other direct contract expenses	260,739	33,503	294,242	192,598	8,815	201,413
Lease and facilities restructuring charges	3,572	(237)	3,335	5,612	157	5,769
Other costs of service	66,958	2,774	69,732	66,330	2,438	68,768
Total costs of service	707,011	38,738	745,749	644,222	13,414	657,636
Gross profit	154,030	(11,176)	142,854	174,648	(5,599)	169,049
Amortization of purchased intangible assets	1,095		1,095	12,396	7	12,403
Selling, general and administrative expenses	137,930	12,707	150,637	141,526	(3,268)	138,258
Operating income (loss)	15,005	(23,883)	(8,878)	20,726	(2,338)	18,388
Interest/other income (expense), net	(5,483)	(747)	(6,230)	(6,014)	2,437	(3,577)
Income (loss) before taxes	9,522	(24,630)	(15,108)	14,712	99	14,811
Income tax expense (benefit)	7,898	(5,996)	1,902	10,571	1,349	11,920
Net income (loss)	\$ 1,624	\$ (18,634)	\$ (17,010)	\$ 4,141	\$ (1,250)	\$ 2,891
Income (loss) per share - basic	\$ 0.01	\$ (0.10)	\$ (0.09)	\$ 0.02	\$ 0.00	\$ 0.02
Income (loss) per share - diluted	\$ 0.01	\$ (0.10)	\$ (0.09)	\$ 0.02	\$ 0.00	\$ 0.02
Weighted average shares - basic	195,258,684		195,258,684	190,287,455		190,287,455
Weighted average shares - diluted	198,203,736		195,258,684	190,327,222		190,327,222

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share amounts)

(unaudited)

	As of March 31, 2004		
	As Reported	Restatement Effect of	As Restated
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 116,792	\$ (561)	\$ 116,231
Accounts receivable, net	394,956	33	394,989
Unbilled revenue	305,615	56,991	362,606
Income tax receivable		24,942	24,942
Deferred income taxes	42,168	22,896	65,064
Prepaid expenses and other current assets	79,088	1,560	80,648
Total current assets	938,619	105,861	1,044,480
Property and equipment, net	204,151	(6,234)	197,917
Goodwill	962,149	12,797	974,946
Other intangible assets, net	6,989		6,989
Deferred income taxes, less current portion	52,099	7,228	59,327
Other assets	24,203	5,184	29,387
Total assets	\$ 2,188,210	\$ 124,836	\$ 2,313,046
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Current portion of notes payable	\$ 9,614	\$	\$ 9,614
Accounts payable	197,894	83,913	281,807
Accrued payroll and employee benefits	177,337	49,789	227,126
Deferred revenue	55,366	5,221	60,587
Income tax payable	30,672	27,895	58,567
Current portion of accrued lease and facilities charge	22,426	(18)	22,408
Deferred income taxes	1,151	6,351	7,502
Other current liabilities	134,267	(10,612)	123,655
Total current liabilities	628,727	162,539	791,266
Notes payable, less current portion	298,060		298,060
Accrued employee benefits	64,136		64,136
Accrued lease and facilities charge, less current portion	31,323	821	32,144
Deferred income taxes, less current portion	4,656	4,206	8,862
Other liabilities	31,307	35,041	66,348
Total liabilities	1,058,209	202,607	1,260,816
Stockholders equity :			
Preferred Stock, \$.01 par value 10,000,000 shares authorized			
Common Stock, \$.01 par value 1,000,000,000 shares authorized	1,992		1,992
Additional paid-in capital	1,122,775	(1,028)	1,121,747

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

Accumulated deficit	(156,180)	(77,160)	(233,340)
Notes receivable from stockholders	(8,995)		(8,995)
Accumulated other comprehensive income	206,136	417	206,553
Treasury stock, at cost (3,812,250 shares)	(35,727)		(35,727)
Total stockholders' equity	1,130,001	(77,771)	1,052,230
Total liabilities and stockholders' equity	\$ 2,188,210	\$ 124,836	\$ 2,313,046

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(in thousands, except share and per share amounts)****(unaudited)****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 March 31, 2004 and 2003 were \$6.33 and \$4.93, respectively. The fair value of options granted was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Stock Price	Risk-Free	Expected	Expected
	Expected	Interest	Life	Dividend
	Volatility	Rate		Yield
Three months ended March 31, 2004	66.31%	3.26%	6	
Three months ended March 31, 2003	72.00%	2.91%	6	

The fair value of the Company's common stock purchased under the Employee Stock Purchase Plan (ESPP) was estimated for the three months ended March 31, 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 1.75%, 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 \$3.36 and \$6.42 for the three months ended March 31, 2004 and 2003, respectively.

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 ended March 31, 2004 and 2003:

	Three Months Ended	
	March 31,	
	2004	2003
	(as restated)	(as restated)
Net income (loss)	\$ (17,010)	\$ 2,891
Add back:		
Total stock based compensation expense recorded under intrinsic value method for all stock awards, net of tax effects	1,990	1,884

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

Deduct:

Total stock based compensation expense recorded under fair value method for all stock awards, net of tax effects	(23,383)	(23,834)
Pro forma net loss	\$ (38,403)	\$ (19,059)
Earnings (loss) per share:		
Basic and diluted as reported	\$ (0.09)	\$ 0.02
Basic and diluted pro forma	\$ (0.20)	\$ (0.10)

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(in thousands, except share and per share amounts)****(unaudited)****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 \$1,987 and \$2,765 for the three months ended March 31, 2004 and 2003, respectively. As of March 31, 2004, 1,240,387 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 three months ended March 31, 2004, employees purchased a total of 1,842,894 shares for \$12,502.

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	
	2004 (as restated)	March 31, 2003 (as restated)
Net income (loss)	\$ (17,010)	\$ 2,891
Weighted average shares outstanding - basic	195,258,684	190,287,455
Assumed exercise of stock options		39,767
Weighted average shares outstanding - diluted	195,258,684	190,327,222
Earnings per share - basic and diluted	\$ (0.09)	\$ 0.02

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 60,942,756 and 51,706,610 for the three months ended March 31, 2004 and 2003, respectively.

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)**

(in thousands, except share and per share amounts)

(unaudited)

Note 6. Comprehensive Income (Loss)

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

	Three Months Ended	
	March 31,	
	2004 (as restated)	2003 (as restated)
Net income (loss)	\$ (17,010)	\$ 2,891
Foreign currency translation adjustment, net of tax (a)	(16,907)	35,266
Minimum pension liability adjustment	(63)	
Unrealized loss on derivative instruments, net of tax	(39)	(39)
Comprehensive income (loss)	\$ (34,019)	\$ 38,118

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

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			
	March 31,			
	2004		2003	
	Revenue (as restated)	Operating Income (Loss) (as restated)	Revenue (as restated)	Operating Income (Loss) (as restated)
Public Services	\$ 378,887	\$ 86,100	\$ 281,666	\$ 77,322
Communications, Content and Utilities	63,165	6,327	89,441	20,708

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

Financial Services	67,432	9,858	60,421	12,065
Consumer, Industrial and Technology	114,602	16,401	137,871	28,754
EMEA	153,934	11,400	157,603	7,697
Asia Pacific	87,555	9,883	83,860	8,378
Latin America	20,815	2,591	15,749	3,029
Corporate/Other (1)	2,213	(151,438)	74	(139,565)
Total	\$ 888,603	\$ (8,878)	\$ 826,685	\$ 18,388

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

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(in thousands, except share and per share amounts)****(unaudited)****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). With regard to facilities costs, the Company and KPMG LLP have entered into various other arrangements pursuant to which the Company subleases office space and receives certain office related support services 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, 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).

Effective February 9, 2004, the Company and KPMG LLP 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 agreement will be provided for a term of one year (with an option to renew for an additional year) at a cost that is less than the cost for comparable services which previously were provided under the transition services agreement.

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

	Three Months Ended	
	March 31,	
	2004	2003
Occupancy costs	\$ 6,167	\$ 5,643
Other infrastructure service costs	13,911	19,121
Total	\$ 20,078	\$ 24,764
Amounts included in:		
Other costs of service	\$ 6,167	\$ 5,643
Selling, general and administrative expenses	13,911	19,121
Total	\$ 20,078	\$ 24,764

During the three months ended March 31, 2004, the Company purchased \$1,547 of equipment from KPMG LLP. 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.

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(in thousands, except share and per share amounts)****(unaudited)****Note 9. Goodwill and Other Intangible Assets**

The changes in the carrying amount of goodwill, at the reporting unit level, for the three months ended March 31, 2004 are as follows:

	Balance December 31, 2003 (as restated)	Additions (as restated)	Other (a) (as restated)	Balance March 31, 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		(17,698)	803,951
Asia Pacific (c)	71,717		1,297	73,014
Latin America	800			800
Corporate/Other	202			202
Total	\$ 991,347	\$	\$ (16,401)	\$ 974,946

- (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.

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(in thousands, except share and per share amounts)****(unaudited)**

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:

	March 31, 2004	December 31, 2003
Identifiable intangible assets:		
Customer-related intangibles:		
Backlog, customer contracts and related customer relationships	\$ 59,600	\$ 60,822
Market-related intangibles:		
Market rights	12,017	12,017
Trade name	1,771	1,811
Total market-related intangibles	13,788	13,828
Total other intangibles	73,388	74,650
Accumulated amortization:		
Customer-related intangibles:		
Backlog, customer contracts and related customer relationships	(58,393)	(59,380)
Market-related intangibles:		
Market rights	(6,582)	(5,924)
Trade name	(1,424)	(1,190)
Total market-related accumulated amortization	(8,006)	(7,114)
Total accumulated amortization	(66,399)	(66,494)
Other intangible assets, net	\$ 6,989	\$ 8,156

Amortization expense related to identifiable intangible assets was \$1,095 and \$12,403 for the three months ended March 31, 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 \$3,335 restructuring charge during the three months ended March 31, 2004 related to lease, facility and other exit activities, primarily in the North America, EMEA and Asia Pacific regions. The \$3,335 charge, recorded within the Corporate/Other operating segment, included \$1,923 related to the fair value of future lease obligations (net of estimated sublease income), \$250 representing the unamortized cost of fixed assets and \$1,162 in other costs associated

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

with exiting facilities. The Company incurred additional lease and facilities related restructuring charges of \$8,364 during the second quarter of calendar year 2004 as the Company continued to eliminate excess capacity and align its office space with its current workforce and the needs of the business. The Company expects to incur total lease and facilities related restructuring charges under the current office space reduction efforts of \$73,135, of which \$64,771 has been incurred to date. As of March 31, 2004, the Company has a remaining lease and facilities accrual of \$54,552, of which \$22,408 and \$32,144 have been identified as current and noncurrent portions, respectively. The remaining lease and facilities accrual will be paid over the remaining lease terms.

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(in thousands, except share and per share amounts)****(unaudited)**

As of March 31, 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 three months ended March 31, 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
Current period charges		3,335	3,335
Payments	(1,408)	(4,769)	(6,177)
Other (a)	(32)	88	56
Balance at March 31, 2004	\$ 898	\$ 54,552	\$ 55,450

(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

Table of Contents

BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

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 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. There were no termination costs during the three months ended March 31, 2004. The amount of termination costs that the Company will pay to KPMG LLP under the transition services agreement with respect to services that are terminated after March 31, 2004 cannot be reasonably estimated at this time. The Company believes that the amount of termination costs yet to be assessed 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.

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, Guarantors 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 performance bonds; its indemnities to various lessors in connection with facility leases; indemnities to customers related to intellectual property and performance 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 March 31, 2004, the Company has approximately \$151,120 of outstanding bid and performance bonds and \$34,824 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 March 31, 2004.

Table of Contents**BEARINGPOINT, INC.****NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)****(in thousands, except share and per share amounts)****(unaudited)****Note 12. Pension and Postretirement Benefits**

The components of the Company's net periodic pension cost and post-retirement medical cost for the three months ended March 31, 2004 were as follows:

	Three Months Ended
	March 31, 2004
Components of net periodic pension cost:	
Service cost	\$ 1,422
Interest cost	1,056
Expected return on plan assets	(240)
Amortization of loss	3
Amortization of prior service cost	191
Net periodic pension cost	\$ 2,432
Components of net periodic postretirement medical cost:	
Service cost	\$ 254
Interest cost	101
Amortization of prior service cost	115
Net periodic postretirement medical cost	\$ 470

The Company made \$753 of cash contributions to its defined benefit pension plans during the three months ended March 31, 2004. The Company expects to make additional cash contributions of approximately \$2,228 to its defined benefit pension plans during the remainder of 2004.

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, and were designated as highly effective cash flow hedges. On November 6, 2002, the treasury locks were settled resulting in a deferred 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 of March 31, 2004 was approximately \$577, of which approximately \$157 will be accreted into interest expense over the next twelve months.

Note 14. Change in Estimate

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

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 scheduled to be completed in the first half of 2004, which upon completion will replace the existing applications. This change in estimate resulted in a charge to net income of \$1,182 (net of tax), or \$0.01 per share, for the three months ended March 31, 2004 and \$1,775 (net of tax), or \$0.01 per share, for the three months ended March 31, 2003.

Table of Contents

BEARINGPOINT, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Continued)

(in thousands, except share and per share amounts)

(unaudited)

Note 15. Income Taxes

For the three months ended March 31, 2004, the Company recognized losses before taxes of \$15,108 and provided for income taxes of \$1,902, resulting in an effective tax rate of (12.6%). The effective tax rate varied from the U.S. Federal statutory tax rate primarily as a result of the mix of income attributable to foreign versus domestic jurisdictions, non-deductible reductions in office space, changes in tax reserves, non-deductible meals and entertainment, and state and local taxes.

Note 16. Subsequent Events

During 2001, several major accounting and consulting firms, including the Company, were named as parties to a complaint filed in the Chancery Court of Miller County, Arkansas. The complaint involved a dispute over rebates and other sums received by the defendants relating to travel expenses incurred on behalf of the defendants' clients. At a mediation held on January 15, 2004, the Company agreed to settle this case by contributing coupons and cash to provide a maximum settlement pool of \$17,000, which will be divided between the plaintiffs and their lawyers. The coupons are redeemable for either Company services or, at the client's election, 60 cents for every dollar in coupons. On April 2, 2004, the Court gave preliminary approval to the proposed settlement. The Company anticipates that notice of the proposed settlement will be sent to the purported class of claimants in early May 2004.

* * * * *

Table of Contents

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 March 31, 2004, international operations outside North America represented 29.5% of our business (measured in revenue dollars) compared to 31.1% for the three months ended March 31, 2003.

Historically, we have consolidated the financial results of certain foreign subsidiaries within Europe, the Middle East and Africa (EMEA) and the Asia Pacific region as of a date that is one month prior (i.e. February 29, 2004) to that of our fiscal reporting period (i.e. March 31, 2004) (one-month lag). During the first quarter of 2004, we recorded a change in accounting principle resulting in certain Asia Pacific subsidiaries now reporting on a current period basis that is consistent with our fiscal reporting period. The purpose of the change is to have these certain foreign subsidiaries report on a basis similar to our fiscal reporting period. As a result, net income for the three months ended March 31, 2004 includes a cumulative effect of a change in accounting principle of \$0.5 million, representing the total December 2003 net loss for these entities. This amount is included in other income (expense), net in the interim consolidated condensed statement of operations for the three months ended March 31, 2004 due to the immateriality of the effect of the change in accounting principle to consolidated net loss.

Our ability to generate business is directly influenced by several external factors. The economic condition in the industries and regions we serve is a significant factor affecting the results of our operations. The pace of

Table of Contents

technological change and the type and level of technology spending by our clients also drive our business. Changes in business requirements and practices of our clients have a significant impact on the demand for the technology consulting and systems integration services we provide.

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 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 March 31, 2004 was \$888.6 million. This represents an increase in revenue of \$61.9 million, or 7.5%, from revenue generated during the three months ended March 31, 2003 of \$826.7 million. When compared to the three months ended March 31, 2003, revenue for our North America region increased \$54.7 million or 9.6%, while revenue for our international regions increased \$5.1 million or 2.0%. Revenue for our North America region increased primarily due to increases in revenue in both our Public Services (\$97.2 million or 34.5%) and Financial Services (\$7.0 million or 11.6%) business units, offset by declines in revenue in our Communications, Content and Utilities (\$26.3 million or 29.4%) and Consumer, Industrial and Technology (\$23.3 million or 16.9%) business units. Revenue for our international regions increased predominantly due to 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. The strengthening of foreign currencies (primarily the Euro and the Japanese Yen) against the U.S. dollar has resulted in a 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 terms, our consolidated revenue for the three months ended March 31, 2004 has increased by 3.4%, when compared to the three months ended March 31, 2003. This increase is predominantly due to an increase in revenue for our North America region, offset by an overall decline in revenue for our international operations due to the sustained economic downturn, which has negatively impacted IT spending. A weakening of foreign currencies against the U.S. dollar could reduce reported revenue and expense items during future periods.

During the quarter ended December 31, 2003, we determined that a triggering event had occurred 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. In response to the challenging economic environment in Europe, we revised our EMEA growth expectations and anticipated operational efficiencies for the next five years. As a result of the impairment test, we recorded a goodwill impairment charge of \$127.3 million (\$0.66 per share) in the quarter ended December 31, 2003.

The sustained economic downturn over the past year has continued to negatively affect the operations of some of our clients and, in turn, impact their information technology (IT) spending. During this time, competition for new engagements has remained strong. Despite the cautious IT spending and competition for new engagements, our bookings remained solid during the three months ended March 31, 2004, represented by a positive book-to-bill ratio for our consolidated operations. The focus of our dedicated sales force and strong relationships with key accounts has enabled us to maintain strong bookings.

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 pricing pressures, we improved or substantially maintained our billing rates across all regions. Billing rates for our North American operations improved for the three months ended March 31, 2004, increasing 6.0% when compared to the three months ended March 31, 2003. Billing rates for our EMEA and Latin America operations improved 8.6% and 15.9%, respectively, during the three months ended March 31, 2004 when compared to the same period during the prior year. Billing rates for Asia Pacific operations declined 1.2% during the three months

Table of Contents

ended March 31, 2004 when compared to the same period during 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.

On February 11, 2004, we announced the opening of our India Global Development Center (GDC). Our new India GDC, along with our existing China GDC, deliver high quality, low cost software development and IT services to our global clients as part of our Global Technology Services (GTS). Our GDCs utilize lower-cost, highly skilled, offshore development staff to develop, support, and maintain our clients' software applications. As our GTS capabilities continue to grow, we may be able to rely less on the use of subcontractors to complete engagements, which should result in improvement in our overall profit margin.

Our gross profit for the three months ended March 31, 2004 was \$142.9 million compared with \$169.0 million for the three months ended March 31, 2003. Gross profit as a percentage of revenue decreased to 16.1% during the current period compared to 20.4% during the three months ended March 31, 2003. The decline in gross profit as a percentage of revenue is principally due to an increase in other direct contract expenses of \$92.8 million, or 46.1% 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. This increase in other direct contract expenses is partially due to our increased use of subcontractors. 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 usage of subcontractors a key ingredient to winning the projects.

As of March 31, 2004, we have approximately 15,600 employees, including approximately 13,600 client service personnel. Our ability to maintain the chargeability, or utilization, of our client service personnel directly impacts our revenue. Utilization represents the percentage of time spent by our client service personnel on billable work. Our utilization during the three months ended March 31, 2004 improved slightly when compared to the three months ended March 31, 2003. Utilization in our North America, EMEA and Asia Pacific regions improved by 3.3%, 6.3% and 2.6%, respectively, while utilization within our Latin America region declined by 6.0%. 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. Overall, we believe that our workforce is in line with market demand for services and the needs of the business; and, as economic conditions begin to rebound in certain markets, we will continue to hire qualified employees with the advanced information technology skills necessary to perform the services we offer.

In connection with our previously announced office space reduction efforts, we recorded an additional \$3.3 million charge related to lease, facilities, and other exit costs incurred during the three months ended March 31, 2004. The Company expects to incur total lease and facilities related restructuring charges under the current office space reduction effort of \$73.1 million, of which \$64.8 million has been incurred through March 31, 2004. Our office space reduction effort is 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. We incurred additional lease and facilities charges of approximately \$8.4 million during the remainder of calendar year 2004. Our office space reduction efforts are expected to result in a reduction of our calendar year 2004 occupancy costs of approximately \$20 million.

For the three months ended March 31, 2004, we recognized losses before taxes of \$15.1 million and provided for income taxes of \$1.9 million, resulting in an effective tax rate of (12.6%). The effective tax rate varied from the U.S. Federal statutory tax rate primarily as a result of the mix of income attributable to foreign versus domestic tax jurisdictions, non-deductible reductions in office space, changes in tax reserves, non-deductible meals and entertainment, and state and local taxes.

Segments

For the three months ended March 31, 2004 and 2003, our reportable segments consist of our four North America industry groups (Public Services, Financial Services, Communications, Content and Utilities)

Table of Contents

(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 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 efforts.

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.

Table of Contents

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.

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

Table of Contents

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.

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 March 31, 2004, our reporting units consisted of our four North America industry groups and our three international

Table of Contents

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 March 31, 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.

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

Table of Contents

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. 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

Table of Contents

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 the Company's 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. The Company has taken steps to improve its 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 the Company's 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 March 31, 2004 to the unaudited results of operations for the three months ended March 31, 2003, and discuss the Company's liquidity and capital resources as of March 31, 2004.

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

Table of Contents**Results of Operations**

The following tables present certain financial information and performance metrics for each of the Company's reportable segments.

	Three Months Ended March 31,	
	2004 (as restated)	2003 (as restated)
(in thousands)		
Revenue:		
Public Services	\$ 378,887	\$ 281,666
Communications, Content and Utilities	63,165	89,441
Financial Services	67,432	60,421
Consumer, Industrial and Technology	114,602	137,871
EMEA	153,934	157,603
Asia Pacific	87,555	83,860
Latin America	20,815	15,749
Corporate/Other	2,213	74
Total	\$ 888,603	\$ 826,685
Revenue %:		
Public Services	43%	34%
Communications, Content and Utilities	7%	11%
Financial Services	8%	7%
Consumer, Industrial and Technology	13%	17%
EMEA	17%	19%
Asia Pacific	10%	10%
Latin America	2%	2%
Corporate/Other	n/m	n/m
Total	100%	100%
Gross Profit (Loss):		
Public Services	\$ 96,970	\$ 86,001
Communications, Content and Utilities	10,993	24,643
Financial Services	14,915	15,329
Consumer, Industrial and Technology	23,283	36,011
EMEA	15,443	20,424
Asia Pacific	14,946	13,520
Latin America	3,325	4,006
Corporate/Other (1)	(37,021)	(30,885)
Total	\$ 142,854	\$ 169,049
Gross Profit (Loss) %:		
Public Services	26%	31%
Communications, Content and Utilities	17%	28%
Financial Services	22%	25%
Consumer, Industrial and Technology	20%	26%
EMEA	10%	13%
Asia Pacific	17%	16%
Latin America	16%	25%
Corporate/Other	n/m	n/m
Total	16%	20%

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

Table of Contents**Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003**

Revenue. Revenue increased \$61.9 million, or 7.5%, from \$826.7 million during the three months ended March 31, 2003, to \$888.6 million during the three months ended March 31, 2004. The increase in revenue was primarily attributable to a \$54.7 million increase in revenue within our North America operating segments and a \$5.1 million increase in revenue within our international operating segments. Our North America revenue of \$624.1 million for the three months ended March 31, 2004 increased 9.6% when compared to the same period in the prior year. Revenue for our North America region increased primarily due to growth in both our Public Services and Financial Services business units. In North America, we experienced an increase in engagement hours and average billing rates of 6.5% and 6.0%, respectively. Revenue from our international operations for the three months ended March 31, 2004 was \$262.3 million, an increase of 2.0% 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 three months ended March 31, 2004 of \$378.9 million, representing an increase of \$97.2 million, or 34.5%, over the three months ended March 31, 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 12.9% and 19.1%, respectively. Revenue for our State, Local & Education (SLED) business sector decreased when compared to the prior year due to the impact of state budget and spending constraints.

The Communications, Content and Utilities business unit generated revenue of \$63.2 million during the three months ended March 31, 2004, representing a decline of \$26.3 million, or 29.4%, from the three months ended March 31, 2003. This decline was primarily the result of declines 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. Overall, Communications, Content and Utilities experienced declines in average billing rates and engagement hours of 12.5% and 19.3%, respectively, when compared to the prior year.

Our Financial Services business unit generated revenue during the three months ended March 31, 2004 of \$67.4 million, representing growth of \$7.0 million, or 11.6% over the three months ended March 31, 2003. This increase in revenue was principally due to a 22.4% increase in engagement hours and a 21.0% increase in utilization when compared to the prior year. Growth in the Financial Services business unit was predominantly in the Banking & Insurance sector. Billing rates for the three months ended March 31, 2004 declined 8.8% 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 March 31, 2004 of \$114.6 million, representing a decline of \$23.3 million, or 16.9%, over the three months ended March 31, 2003. The decline was primarily the result of continued pricing pressures and challenging economic conditions in the market segment, which have led to a decrease in technology spending. Consumer, Industrial and Technology experienced a decline in engagement hours and average billing rates of 13.4% and 4.0%, respectively, when compared to the same period during the prior year.

The EMEA business unit generated revenue of \$153.9 million during the three months ended March 31, 2004, representing a decline of \$3.7 million, or 2.3%, over the three months ended March 31, 2003. The reported revenue for our international business units is affected by currency exchange-rate fluctuations. The strengthening of foreign currencies (primarily the Euro) against the U.S. dollar over the past year resulted in a currency translation that has increased our reported U.S. dollar revenue during the three months ended March 31, 2004. In constant currency terms, revenue for our EMEA business unit for the three months ended March 31, 2004 declined by approximately 16.1% when compared to the three months ended March 31, 2003. This decline is

Table of Contents

mainly due to overcapacity in the marketplace and an overall lack of demand for work resulting from the sustained economic downturn. Our EMEA business unit experienced a decrease in engagement hours and average billing rates (on a constant currency basis) of 10.0% and 6.8%, respectively, when compared to the prior year.

The Asia Pacific business unit generated revenue of \$87.6 million during the three months ended March 31, 2004 representing growth of \$3.7 million, or 4.4%, over the three months ended March 31, 2003. The strengthening of foreign currencies against the U.S. dollar over the past year resulted in a currency translation that has increased our reported U.S. dollar revenue during the three months ended March 31, 2004. In constant currency terms, revenue for our Asia Pacific business unit for the three months ended March 31, 2004 decreased by approximately 7.7% when compared to the three months ended March 31, 2003. The decline in revenue was primarily the result of lower billing rates realized on significant new engagements in China and Japan.

Our Latin America business unit generated revenue of \$20.8 million during the three months ended March 31, 2004, representing growth of \$5.1 million, or 32.2%, over the three months ended March 31, 2003. The increase in revenue is due to the continued integration of acquisitions made during fiscal year 2003 in addition to increased volume in Mexico and Brazil. This increase is reflected in a 14.0% growth in engagement hours as well as a 4.8% increase in our average billing rate per hour. Currency exchange-rate fluctuations have not had a significant impact on our Latin America operations.

Gross Profit. Gross profit as a percentage of revenue declined to 16.1% for the three months ended March 31, 2004, compared to 20.4% for the three months ended March 31, 2003. This decline is mainly attributable to an increase in other direct contract expenses during the three months ended March 31, 2004 of \$92.8 million, or 46.1%. In dollar terms, gross profit decreased by \$26.2 million, or 15.5%, from \$169.0 million for the three months ended March 31, 2003, to \$142.9 million for the three months ended March 31, 2004. Despite the increase in revenue of \$61.9 million described above, gross profit for the three months ended March 31, 2004 declined as a result of the net impact of the following:

A net decrease in professional compensation of \$3.2 million, or 0.9%, from \$381.7 million for the three months ended March 31, 2003, to \$378.4 million for the three months ended March 31, 2004. The decrease in professional compensation expense is primarily the result of savings achieved by our workforce reduction actions taken over the past year in response to the challenging economy. Professional compensation expense as a percentage of revenue improved to 42.6% for the three months ended March 31, 2004 compared to 46.2% during the prior year.

A net increase in other direct contract expenses of \$92.8 million, or 46.1%, from \$201.4 million, or 24.4% of revenue, for the three months ended March 31, 2003, to \$294.2 million, or 33.1% of revenue, for the three months ended March 31, 2004. The \$92.8 million increase in other direct contract expenses is mainly attributable to our increased use of subcontractors, particularly in the Public Services business unit. 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. Whenever possible we are focused on limiting the use of subcontractors and minimizing travel-related expenses, 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 our services.

A net increase in other costs of service of \$1.0 million, or 1.4%, from \$68.8 million for the three months ended March 31, 2003, to \$69.7 million for the three months ended March 31, 2004. The increase in other costs of service is primarily attributable to an increase in costs associated with international

Table of Contents

acquisitions completed during fiscal year 2003, offset by savings achieved as a result of our office space reduction efforts. Other costs of service as a percentage of revenue improved slightly to 7.8% during the current period compared to 8.3% during the three months ended March 31, 2003.

During the three months ended March 31, 2004, we recorded, within the Corporate/Other operating segment, a charge of \$3.3 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. The \$3.3 million lease and facilities charge included \$1.9 million related to the fair value of future lease obligations (net of estimated sublease income), \$0.3 million representing the unamortized cost of fixed assets and \$1.1 million in other costs associated with exiting facilities. As of March 31, 2004, we have a remaining lease and facilities accrual of \$22.4 million and \$32.1 million, identified as current and noncurrent portions, respectively. The remaining lease and facilities accrual will be paid over the remaining lease terms.

Gross profit as a percentage of revenue for our Public Services business unit declined to 25.6% in the three months ended March 31, 2004, from 30.5% in the three months ended March 31, 2003. This decline is principally due to a \$78.8 million increase in other direct contract expenses as a result of our increased use of subcontractors coupled with an \$8.0 million increase in compensation expense. As mentioned above, the increase in our use of subcontractors is mainly the result of acting as the prime contractor on several large system integration projects and the mandated use of subcontractors on certain international 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 17.4% in the three months ended March 31, 2004 from 27.6% in the three months ended March 31, 2003. In dollar terms, gross profit decreased \$13.7 million, or 55.4%, when compared to the prior year. The decline in gross profit was principally due to the decrease in revenue of \$26.3 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 Communications, Content and Utilities.

Gross profit as a percentage of revenue for the Financial Services business unit decreased to 22.1% in the three months ended March 31, 2004 from 25.4% in the three months ended March 31, 2003. The decline in gross profit was principally due to an increase in other direct contract expenses as a percentage of revenue from 19.6% for the three months ended March 31, 2003 to 22.7% for the three months ended March 31, 2004. The increase in other direct contract expenses as a percentage of revenue is mainly due to an increase in the use of subcontractors and travel related expenses in line with the growth in our Financial Services business. In addition, gross profit for the Financial Services business unit was negatively impacted by an increase in professional compensation expense due to an increase in headcount.

Gross profit as a percentage of revenue for the Consumer, Industrial and Technology business unit declined to 20.3% in the three months ended March 31, 2004 from 26.1% in the three months ended March 31, 2003. In dollar terms, gross profit decreased \$12.7 million, or 35.3%, when compared to the same period during the prior year. The decline in gross profit was principally due to the decrease in revenue mentioned above resulting from the challenging economic conditions and cautious IT spending in this industry.

Gross profit as a percentage of revenue for the EMEA business unit declined to 10.0% during the three months ended March 31, 2004, compared to 13.0% during the three months ended March 31, 2003. This decline is primarily a result of an increase in other direct contract expenses due to increased use of subcontractors during the three months ended March 31, 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.

Table of Contents

Gross profit as a percentage of revenue for the Asia Pacific business unit improved to 17.1%, during the three months ended March 31, 2004, compared to 16.1% for the three months ended March 31, 2003. This improvement is the result of a \$3.7 million increase in revenue as well as a reduction in professional compensation expense as a percentage of revenue during the three months ended March 31, 2004.

Gross profit as a percentage of revenue for Latin America declined to 16.0% during the three months ended March 31, 2004 compared to 25.4% during the three months ended March 31, 2003. This decline is primarily the result of our increased use of subcontractors at key clients to satisfy the demands resulting from our revenue growth discussed above.

Amortization of Purchased Intangible Assets. Amortization of purchased intangible assets decreased \$11.3 million to \$1.1 million for the three months ended March 31, 2004, from \$12.4 million for the three months ended March 31, 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 \$12.4 million, or 9.0%, from \$138.3 million for the three months ended March 31, 2003, to \$150.6 million for the three months ended March 31, 2004. The increase is primarily due to an increase in infrastructure costs associated with the international acquisitions completed during fiscal year 2003. This increase is partially offset by savings in infrastructure costs 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 slightly to 17.0% compared to 16.7% for the three months ended March 31, 2003.

Income Tax Expense. For the three months ended March 31, 2004, we had losses before taxes of \$15.1 million and provided for income taxes of \$1.9 million, resulting in an effective tax rate of (12.6%). For the three months ended March 31, 2003, we earned income before taxes of \$14.8 million and provided for income taxes of \$11.9 million, resulting in an effective tax rate of 80.5%. The effective tax rate varied from the U.S. Federal statutory tax rate primarily as a result of the mix of income attributable to foreign versus domestic tax jurisdictions, non-deductible reductions in office space, changes in tax reserves, non-deductible meals and entertainment, and state and local taxes.

Net Income (Loss). For the three months ended March 31, 2004, we realized net losses of \$17.0 million, or \$0.09 per share. For the three months ended March 31 2003, we realized net income of \$2.9 million, or \$0.02 per share.

Obligations and Commitments

As of March 31, 2004, we had the following obligations and commitments to make future payments under contracts, contractual obligations and commercial commitments:

Contractual Obligations	Total	Less than 1 year	Payment due by period		
			1-3 years (in thousands)	3-5 years	After 5 years
Long-term debt (1)	\$ 356,568	\$ 26,209	\$ 178,988	\$ 151,371	\$
Operating leases	476,909	63,849	149,032	111,963	152,065
Outsourcing services agreement	16,875	8,438	8,437		
Reduction in workforce	898	898			
Total	\$ 851,250	\$ 99,394	\$ 336,457	\$ 263,334	\$ 152,065

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

Table of Contents

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 March 31, 2004, we had a cash balance of \$116.2 million, which has decreased by \$6.2 million from a cash balance of \$122.5 million at December 31, 2003.

Net cash used in operating activities during the three months ended March 31, 2004 was \$62.7 million, an increase of \$22.4 million over the three months ended March 31, 2003. This increase was due to a \$8.1 million increase in operating assets and liabilities, as well as a \$30.5 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 employee benefit payments during the current period. Our days sales outstanding decreased from 78 days at March 31, 2003 to 74 days at March 31, 2004. Days sales outstanding represents the trailing twelve months revenue divided by 365 days, which is divided into the consolidated accounts receivable, unbilled revenue and deferred revenue balances to arrive at days sales outstanding at a point in time.

Net cash used in investing activities during the three months ended March 31, 2004 was \$18.2 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 \$10.0 million when compared to the three months ended March 31, 2003, resulting from \$2.8 million of cash paid for acquisitions and a higher level of spending on property and equipment during the three months ended March 31, 2003.

Net cash provided by financing activities for the three months ended March 31, 2004 was \$75.2 million, due to proceeds from borrowings, net of repayments, of \$58.9 million, \$13.1 million received in exchange for the issuance of common stock primarily relating to our Employee Stock Purchase Plan and a \$3.1 million net increase in book overdrafts. For the three months ended March 31, 2003, we had net cash provided by financing activities of \$45.0 million principally due to proceeds from borrowings and the issuance of common stock relating to our Employee Stock Purchase Plan.

We have borrowing arrangements available including a revolving credit facility with an outstanding balance of \$66.0 million at March 31, 2004 (not to exceed \$250.0 million), and an accounts receivable financing facility with no outstanding balance at March 31, 2004 (not to exceed \$150.0 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 accounts receivable purchase agreement permits sales of accounts receivable through May 21, 2004, subject to annual renewal. The accounts receivable purchase agreement is accounted for as a financing transaction; accordingly, it is not an off-balance sheet financing arrangement.

The \$250.0 million 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 (\$898.1 million as of March 31, 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 (see below) 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 this credit facility. The credit facility contains customary events of default and a default (i) upon the acquisition by a person or group of beneficial ownership of 30% or more of 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

Table of Contents

accounts receivable purchase agreement contains covenants that are consistent with our \$250.0 million revolving credit facility. The revolving credit facility and the accounts receivable purchase agreement cross default in certain circumstances, to each other and to other debt, including the Senior Notes.

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 (\$848.0 million as of March 31, 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 accounts receivable purchase agreement and our other debt. The proceeds from the sale of these Senior Notes were used to completely repay our short-term revolving credit facility of \$220.0 million, which was scheduled to mature on December 15, 2002.

On January 31, 2003, our Japanese subsidiary entered into a new 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 March 31, 2004, the balance outstanding under the 2 billion yen-denominated term loan is approximately 1.33 billion yen (approximately \$12.8 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%.

On June 30, 2003, our Japanese subsidiary entered into a new 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 March 31, 2004, the balance outstanding under the 1 billion yen-denominated term loan is 833.0 million yen (approximately \$8.0 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 \$13.0 million as of March 31, 2004) and a 0.5 billion yen-denominated overdraft line of credit facility (approximately \$4.8 million as of March 31, 2004). The facilities, which mature on August 31, 2004, are unsecured, do not contain financial covenants and are not guaranteed by us. As of March 31, 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 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

Table of Contents

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 agreement will be provided for a term of one year (with an option to renew for an additional year) at a cost that is less than the cost for comparable services which previously were provided under the transition services agreement.

At this time there are no terminated services 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 March 31, 2004 cannot be reasonably estimated at this time.

During the three months ended March 31, 2004, we purchased from KPMG LLP \$1.5 million of equipment. The Company is charged for the use of such capital assets by usage charges that are included in the monthly costs under the transition services agreement.

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 performance 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 March 31, 2004, we have approximately \$151.1 million of outstanding bid and performance bonds and \$34.8 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 March 31, 2004.

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 \$250.0 million revolving credit facility) and have sufficient access to the capital markets to meet our long-term liquidity needs.

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

the timing of projects and their termination;

the availability of talented professionals to provide our services;

the pace of technology change;

the strength of our joint marketing relationships;

the actions of our competitors;

unexpected difficulties with the Company's global initiatives and transactions (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; and

our inability to use losses in some of our foreign subsidiaries to offset tax on earnings outside the U.S.

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.

Table of Contents

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 three months ended March 31, 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 March 31, 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 March 31, 2004, management concluded that, as of December 31, 2004 and March 31, 2004, the Company's disclosure controls and procedures were not effective.

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 March 31, 2004, which necessitated the filing of this Report on Form 10-Q/A for the quarter ended March 31, 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

Table of Contents

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 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 March 31, 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.

Table of Contents

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.

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.

Table of Contents

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 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

Table of Contents

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 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.

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 March 31, 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.

Edgar Filing: BEARINGPOINT INC - Form 10-Q/A

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

Table of Contents

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 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 March 31, 2004 that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

PART II, ITEM 1. LEGAL PROCEEDINGS

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.

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 March 31, 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 three month period ended March 31, 2004.

PART II, ITEM 3. NONE

PART II, ITEM 4. NONE

PART II, ITEM 5. OTHER INFORMATION

On March 30, 2004, the Company named Betsy Bernard to the Company's Board of Directors. Ms. Bernard, 48, served as the President of AT&T Corporation until December 2003. She currently is a private investor and she serves on the boards of directors of The Principal Financial Group and United Technologies Corporation. Ms. Bernard's term expires at the 2004 Annual Meeting.

The Company set August 3, 2004 as the date of its 2004 Annual Meeting of Stockholders. Because of the Company's previously-announced change in fiscal year from the twelve-month period ending June 30 to the twelve-month period ending December 31, the Company has moved the date of its 2004 Annual Meeting to earlier in the year than the date of its 2003 Annual Meeting, which was held November 4.

In order to accommodate the earlier date of the 2004 Annual Meeting, the Board of Directors of the Company amended the Company's Bylaws to establish the date by which notice of proposals for new business and director nominations for the 2004 Annual Meeting must be received by the Company. In addition, the Company's amended Bylaws provide for new deadlines when its Annual Meeting is advanced or delayed by more than thirty days from the anniversary of the preceding Annual Meeting.

Any stockholder that intends to present a proposal for new business or nominate a director at the 2004 Annual Meeting must provide notice of the proposal or nomination, in accordance with the Company's Bylaws,

Table of Contents

not later than May 28, 2004. Any stockholder that intends to present a proposal for inclusion in the Company's proxy materials for the 2004 Annual Meeting must submit the proposal, in accordance with Securities Exchange Act of 1934 Rule 14a-8, not later than May 28, 2004. In each case, the notice must be addressed to the attention of the Company's Secretary at the Company's principal place of business, which is 1676 International Drive, McLean, Virginia 22012.

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

a) Exhibits

- 3.1 Amended and Restated Bylaws, amended and restated as of May 5, 2004, which is incorporated herein by reference to Exhibit 3.1 from the Company's Form 10-Q for the quarterly period ended March 31, 2004 (filed on May 10, 2004).
- 10.1 Amended and Restated Receivables Purchase Agreement, dated as of March 31, 2004, between KCI Funding Corporation, Bearing Point, Inc. and PNC Bank, National Association, as Administrator, which is incorporated herein by reference to Exhibit 10.22 from the Company's Transition Report on Form 10-K for the six-month period ended December 31, 2003 (filed on April 16, 2004).
- 10.2 Fifth Amendment to Credit Facility Agreement, dated March 19, 2004, by and among the Company, the Guarantors, the Banks, and PNC Bank, National Association, as Administrative Agent, which is incorporated herein by reference to Exhibit 10.31 from the Company's Transition Report on Form 10-K for the six-month period ended December 31, 2003 (filed on April 16, 2004).
- 18.1 Preferability Letter, dated May 7, 2004, from PricewaterhouseCoopers LLP regarding change in accounting principle, which is incorporated herein by reference to Exhibit 18.1 from the Company's Form 10-Q for the quarterly period ended March 31, 2004 (filed on May 10, 2004).
- 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) The Company filed two Current Reports on Form 8-K during the quarter ended March 31, 2004. In the Form 8-K filed on February 5, 2004, the Company announced a change in the fiscal year end of the Company from June 30 to December 31 pursuant to Item 8 and furnished a press release that provided guidance on its financial results for the quarter ended December 31, 2003 pursuant to Item 12. In the Form 8-K filed on February 26, 2004, the Company reported preliminary financial results for the quarter ended December 31, 2003 under Item 5 and furnished a press release announcing the preliminary results pursuant to Item 12.

Table of Contents

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

Table of Contents

Exhibit Index

- 3.1 Amended and Restated Bylaws, amended and restated as of May 5, 2004, which is incorporated herein by reference to Exhibit 3.1 from the Company's Form 10-Q for the quarterly period ended March 31, 2004 (filed on May 10, 2004).
- 10.1 Amended and Restated Receivables Purchase Agreement, dated as of March 31, 2004, between KCI Funding Corporation, Bearing Point, Inc. and PNC Bank, National Association, as Administrator, which is incorporated herein by reference to Exhibit 10.22 from the Company's Transition Report on Form 10-K for the six-month period ended December 31, 2003 (filed on April 16, 2004).
- 10.2 Fifth Amendment to Credit Facility Agreement, dated March 19, 2004, by and among the Company, the Guarantors, the Banks, and PNC Bank, National Association, as Administrative Agent, which is incorporated herein by reference to Exhibit 10.31 from the Company's Transition Report on Form 10-K for the six-month period ended December 31, 2003 (filed on April 16, 2004).
- 18.1 Preferability Letter, dated May 7, 2004, from PricewaterhouseCoopers LLP regarding change in accounting principle, which is incorporated herein by reference to Exhibit 18.1 from the Company's Form 10-Q for the quarterly period ended March 31, 2004 (filed on May 10, 2004).
- 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).