
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to _____

Commission file number 001-31351

HEWITT ASSOCIATES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

47-0851756

(I.R.S. Employer Identification No.)

100 Half Day Road; Lincolnshire, Illinois 60069; 847-295-5000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

N/A

(Former Name, Former Address & Former Fiscal Year, if changed since last report)

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

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

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

Class	Outstanding Shares at June 30, 2004
Class A Common Stock - \$0.01 par value	31,456,211
Class B Common Stock - \$0.01 par value	62,582,704
Class C Common Stock - \$0.01 par value	4,519,719
	<hr/> 98,558,634

HEWITT ASSOCIATES, INC.

FORM 10-Q
FOR THE PERIOD ENDED
JUNE 30, 2004

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

HEWITT ASSOCIATES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except for share and per share amounts)

	June 30, 2004	September 30, 2003
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 275,486	\$ 227,505
Client receivables and unbilled work in process, less allowances of \$20,706 at June 30, 2004 and \$15,011 at September 30, 2003	478,448	461,430
Prepaid expenses and other current assets	56,691	46,496
Deferred income taxes, net	8,948	8,948
Total current assets	819,573	744,379
Non-Current Assets		
Deferred contract costs	147,254	138,475
Property and equipment, net	223,712	237,476
Capitalized software, net	81,522	95,054
Other intangible assets, net	109,497	107,540
Goodwill, net	291,252	259,294
Other assets, net	29,270	21,937
Total non-current assets	882,507	859,776
Total Assets	\$1,702,080	\$ 1,604,155
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 18,746	\$ 14,508
Accrued compensation and benefits	143,779	147,821
Accrued expenses	120,520	103,520
Advanced billings to clients	101,333	107,247
Short-term debt and current portion of long-term debt	14,514	33,000
Current portion of capital lease obligations	3,507	6,602
Employee deferred compensation and accrued profit sharing	39,182	47,583
Total current liabilities	441,581	460,281
Long-Term Liabilities		
Debt, less current portion	121,197	135,563
Capital lease obligations, less current portion	80,851	83,191
Deferred contract revenues	116,595	118,167
Other long-term liabilities	74,091	69,468
Deferred income taxes, net	46,974	47,424
Total long-term liabilities	439,708	453,813
Total Liabilities	\$ 881,289	\$ 914,094

Commitments and Contingencies (Note 10)

HEWITT ASSOCIATES, INC.
CONSOLIDATED BALANCE SHEETS – (Continued)
(Dollars in thousands except for share and per share amounts)

	<u>June 30, 2004</u>	<u>September 30, 2003</u>
STOCKHOLDERS' EQUITY		
(Unaudited)		
Stockholders' Equity		
Class A common stock, par value \$0.01 per share, 750,000,000 shares authorized, 31,456,211 and 30,463,187 shares issued and outstanding, as of June 30, 2004 and September 30, 2003, respectively	\$ 315	\$ 305
Class B common stock, par value \$0.01 per share, 200,000,000 shares authorized, 62,582,704 and 63,420,466 shares issued and outstanding, as of June 30, 2004 and September 30, 2003, respectively	626	634
Class C common stock, par value \$0.01 per share, 50,000,000 shares authorized, 4,519,719 and 4,603,915 shares issued and outstanding as of June 30, 2004 and September 30, 2003, respectively	45	46
Restricted stock units, 123,615 and 173,998 units issued and outstanding, as of June 30, 2004 and September 30, 2003, respectively	2,137	3,302
Additional paid-in capital	632,906	627,329
Cost of common stock in treasury, 525,923 and 270,294 shares of Class A common stock as of June 30, 2004 and September 30, 2003, respectively	(13,389)	(6,164)
Retained earnings	161,285	71,586
Unearned compensation	(31,822)	(45,534)
Accumulated other comprehensive income	68,688	38,557
Total stockholders' equity	<u>820,791</u>	<u>690,061</u>
Total Liabilities and Stockholders' Equity	<u>\$1,702,080</u>	<u>\$ 1,604,155</u>

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

HEWITT ASSOCIATES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Dollars in thousands except for share and per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Revenues:				
Revenues before reimbursements (net revenues)	\$ 551,783	\$ 494,886	\$ 1,630,082	\$ 1,453,262
Reimbursements	11,947	12,862	43,817	40,395
Total revenues	563,730	507,748	1,673,899	1,493,657
Operating expenses:				
Compensation and related expenses, excluding initial public offering restricted stock awards	358,561	318,806	1,046,571	940,215
Initial public offering restricted stock awards	3,790	5,649	12,470	35,193
Reimbursable expenses	11,947	12,862	43,817	40,395
Other operating expenses	103,378	96,511	318,886	285,022
Selling, general and administrative expenses	31,802	25,492	86,507	70,612
Total operating expenses	509,478	459,320	1,508,251	1,371,437
Operating income	54,252	48,428	165,648	122,220
Other expenses, net:				
Interest expense	(4,674)	(4,856)	(14,474)	(15,053)
Interest income	931	670	1,980	1,770
Other income (expense), net	196	420	(1,122)	582
	(3,547)	(3,766)	(13,616)	(12,701)
Income before income taxes	50,705	44,662	152,032	109,519
Provision for income taxes	20,789	18,219	62,333	44,811
Net income	\$ 29,916	\$ 26,443	\$ 89,699	\$ 64,708
Earnings per share:				
Basic	\$ 0.31	\$ 0.28	\$ 0.94	\$ 0.69
Diluted	\$ 0.30	\$ 0.27	\$ 0.91	\$ 0.67
Weighted average shares:				
Basic	95,933,048	95,169,772	95,866,711	94,454,190
Diluted	98,265,128	96,863,533	98,046,725	96,824,437

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

HEWITT ASSOCIATES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 89,699	\$ 64,708
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	56,555	56,846
Amortization	32,015	24,786
Initial public offering restricted stock awards	11,313	30,847
Director stock remuneration	220	75
Deferred income taxes	(450)	24,014
Changes in operating assets and liabilities:		
Client receivables and unbilled work in process	(16,769)	(2,288)
Prepaid expenses and other current assets	(8,311)	1,389
Deferred contract costs	(9,117)	(8,705)
Accounts payable	3,948	(9,168)
Accrued compensation and benefits	(6,231)	7,360
Accrued expenses	21,952	(3,436)
Advanced billings to clients	(5,899)	11,786
Deferred contract revenues	(1,554)	3,780
Employee deferred compensation and accrued profit sharing	(8,433)	(19,386)
Other long-term liabilities	4,523	(260)
Net cash provided by operating activities	163,461	182,348
Cash flows from investing activities:		
Additions to property and equipment	(39,701)	(27,379)
Cash paid for acquisitions and transaction costs, net of cash received	(10,951)	(63,697)
Increase in other assets	(19,740)	(28,861)
Net cash used in investing activities	(70,392)	(119,937)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	2,691	303
Short-term borrowings	15,946	1,016
Repayments of short-term borrowings	(38,554)	(14,637)
Repayments of long-term debt	(13,000)	(9,238)
Repayments of capital lease obligations	(5,636)	(8,045)
Purchase of Class A common shares into treasury	(7,225)	(6,153)
Payment of offering costs	—	(796)
Net cash used in financing activities	(45,778)	(37,550)
Effect of exchange rate changes on cash and cash equivalents	690	1,574
Net increase in cash and cash equivalents	47,981	26,435
Cash and cash equivalents, beginning of period	227,505	136,450
Cash and cash equivalents, end of period	\$275,486	\$ 162,885
Supplementary disclosure of cash paid during the period:		
Interest paid	\$ 15,622	\$ 14,120
Income taxes paid	\$ 43,195	\$ 33,251

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

HEWITT ASSOCIATES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003
(Unaudited)
(Dollars in thousands except for share and per share amounts)

1. Description of Business

Hewitt Associates, Inc., a Delaware corporation, and its subsidiaries (“Hewitt” or the “Company”) provide global human resources outsourcing and consulting services. The Company’s outsourcing business is comprised of employee benefit plan, payroll and workforce management administration services. Hewitt’s consulting business is comprised of advisory services in health management, retirement and financial management, talent and organization consulting, and other consulting.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for quarterly reports on Form 10-Q. In the opinion of management, these financial statements include all adjustments necessary to present fairly the financial position, results of operations and cash flows as of June 30, 2004, and for all periods presented. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The Company believes that the disclosures included are adequate and provide a fair presentation of interim period results. Interim financial statements are not necessarily indicative of the financial position or operating results for an entire year. It is suggested that these interim financial statements be read in conjunction with the audited financial statements and the notes thereto, together with management’s discussion and analysis of financial condition and results of operations, included in the Company’s Form 10-K for the fiscal year ended September 30, 2003, as filed with the Securities and Exchange Commission. Certain previously reported amounts have been reclassified to conform to the current period presentation.

The consolidated financial statements are prepared on the accrual basis of accounting. The significant accounting policies are summarized below:

Revenue Recognition

Revenues include fees generated from outsourcing contracts and from consulting services provided to the Company’s clients. Revenues from sales or licensing of software are not material. Under the Company’s outsourcing contracts, which typically have a three- to five-year term, clients generally pay an implementation fee and an ongoing service fee. The Company recognizes revenues for non-refundable, upfront implementation fees evenly over the period between the initiation of ongoing services through the end of the contract term (on a straight-line basis). Indirect costs of implementation are expensed as incurred. However, incremental direct costs of implementation are deferred and recognized as expense over the same period that deferred implementation fees are recognized. If a client terminates an outsourcing contract prematurely, both the deferred implementation revenues and related costs are recognized in the period in which the termination occurs.

Revenues related to ongoing service fees and to services provided outside the scope of outsourcing contracts are recognized when persuasive evidence of an arrangement exists, services have been rendered, our fee is determinable and collectibility of our fee is reasonably assured. Ongoing service fees are typically billed and recognized on a monthly basis, typically based on the number of plan participants or services and often with a minimum monthly fee. Services provided outside the scope of our outsourcing contracts are billed and recognized on a time-and-material or fixed fee basis.

The Company's clients typically pay for consulting services either on a time-and-materials or on a fixed-fee basis. Revenues are recognized under time-and-material based arrangements as services are provided. On fixed-fee engagements, revenues are recognized either as services are provided using the proportional performance method and estimates of overall profitability and stages of project completion, or at the completion of a project, based on the facts and circumstances of the client arrangement.

Losses on outsourcing or consulting arrangements are recognized during the period in which a loss becomes probable and the amount of the loss is reasonably estimable. Contract or project losses are determined to be the amount by which the estimated direct and a portion of indirect costs exceed the estimated total revenues that will be generated by the arrangement. Estimates are monitored during the term of the arrangement and any changes to estimates are recorded in the current period and can result in either increases or decreases to income.

The Company has contracts for multiple services primarily in the Outsourcing segment. In these contracts, standalone deliverables include core services, such as Defined Benefit, Health & Welfare or Defined Contribution Benefit Plan Administration, and standalone ancillary services, such as *Your Total Rewards*, which are tracked and valued separately. The upfront, non-refundable implementation fees on outsourcing standalone deliverables are also deferred and recognized over the life of the contract, so that revenues for both implementation services and ongoing services are generally recorded over the same period (e.g. life of the contract). Consulting services provided in connection with outsourcing engagements are accounted for at the time services are provided and are valued based on prevailing market rates.

Revenues earned in excess of billings are recorded as unbilled work in process. Billings in excess of revenues earned are recorded as advanced billings to clients, a deferred revenue liability, until services are rendered.

The Company considers the criteria established by Emerging Issues Task Force ("EITF") Issue No. 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, in determining whether revenue should be recognized on a gross versus a net basis. In consideration of these criteria, the Company recognizes revenue primarily on a gross basis. Factors considered in determining if gross or net recognition is appropriate include whether the Company is primarily responsible to the client for the services, changes the delivered product, performs part of the service delivered, has discretion on vendor selection, or bears credit risk. In accordance with EITF Issue No. 01-14, *Income Statement Characterization of Reimbursements Received for "Out-of-Pocket" Expenses Incurred*, reimbursements received for out-of-pocket expenses incurred are characterized as revenues and are shown as a separate component of total revenues. Similarly, related reimbursable expenses are also shown separately within operating expenses.

Deferred Contract Costs and Deferred Contract Revenues

For new outsourcing services, upfront implementation efforts are required to set up a client and their human resource or benefit programs on the Company's systems. The direct implementation or "set up" costs and any upfront set up fees are deferred and recognized into earnings over the life of the outsourcing agreement. Specific, incremental and direct costs of implementation are deferred and recognized as primarily compensation and related expenses evenly over the period between the initiation of ongoing services through the end of the contract term. Implementation fees may be received either upfront or over the ongoing services period in the fee per participant. By deferring the upfront set up fees over the ongoing services period, all set up revenues are recognized evenly over the contract term along with the corresponding deferred contract costs.

Funds Held for Clients

A small portion of the Company's outsourcing agreements require the Company to hold client funds. As of June 30, 2004 and September 30, 2003, \$10,481 and \$8,292, respectively, were included within prepaid expenses and other current assets and accrued expenses related to the client fund obligations.

Performance-Based Compensation

The Company's compensation program includes a performance-based component that is determined by management. Performance-based compensation is discretionary and is based on individual, team, and total Company performance.

Performance-based compensation is paid once per fiscal year after the Company's annual operating results are finalized. The amount of expense for performance-based compensation recognized at interim and annual reporting dates involves judgment, is based on our quarterly and annual results as compared to our internal targets, and takes into account other factors, including industry trends and the general economic environment. Annual performance-based compensation levels may vary from current expectations as a result of changes in the actual performance of the Company, team or individual. As such, accrued amounts are subject to change in future periods if actual future performance varies from performance levels anticipated in prior interim periods.

Use of Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for contract and project loss reserves, performance-based compensation, the allowance for doubtful accounts, depreciation and amortization, asset impairment, taxes, and any contingencies. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates.

Goodwill and Intangible Assets

Goodwill is not amortized but is reviewed for impairment annually or more frequently if indicators arise. The evaluation is based upon a comparison of the estimated fair value of the unit of the Company's business to which the goodwill has been assigned, to the sum of the carrying value of the assets and liabilities of that unit. The fair values used in this evaluation are estimated based upon discounted future cash flow projections for the unit. These cash flow projections are based upon a number of estimates and assumptions. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. See Note 6 for additional information on goodwill and intangible assets.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans under Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, which allows companies to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*, and provide pro forma net income and net income per share disclosures for employee stock option grants as if the fair value method defined in SFAS No. 123 had been applied. The Company applies the intrinsic value method for accounting for stock-based compensation as outlined in APB Opinion No. 25.

Restricted stock awards, including restricted stock and restricted stock units, are measured using the fair market value of the stock as of the grant date and are initially recorded as unearned compensation on the balance sheet. As the restricted stock awards vest, the unearned compensation is amortized to compensation expense on a straight-line basis. Employer payroll taxes are also recorded as expense when they become due over the vesting period. The remaining unvested shares are subject to forfeiture and restrictions on sale or transfer for four years from the grant date.

The Company also grants nonqualified stock options at an exercise price equal to the fair market value of the Company's stock on the grant date. Because the stock options have no intrinsic value on the grant date, no compensation expense is recorded in connection with the stock option grants. Generally, stock options vest 25 percent on each anniversary of the grant date, are fully vested four years from the grant date, and have a term of ten years.

For purposes of pro forma disclosures, applying the Black Scholes valuation method, had the estimated fair value of the stock options been amortized to compensation expense over the stock options' vesting period, the Company's pro forma net income and earnings per share would have been as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net income:				
As reported	\$29,916	\$26,443	\$ 89,699	\$ 64,708
Reported stock-based compensation expense, net of tax	2,236	3,333	7,357	20,764
Pro forma stock-based compensation expense, net of tax	(4,307)	(4,389)	(13,698)	(23,942)
Pro forma net income	\$27,845	\$25,387	\$ 83,358	\$ 61,530
Net income per share – basic:				
As reported	\$ 0.31	\$ 0.28	\$ 0.94	\$ 0.69
Pro forma	\$ 0.29	\$ 0.27	\$ 0.87	\$ 0.65
Net income per share – diluted:				
As reported	\$ 0.30	\$ 0.27	\$ 0.91	\$ 0.67
Pro forma	\$ 0.28	\$ 0.26	\$ 0.85	\$ 0.64

3. Earnings Per Share

Basic earnings per share (“EPS”) is calculated by dividing net income by the weighted-average number of shares of common stock outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive potential common stock equivalents.

For purposes of calculating basic and diluted earnings per share, vested restricted stock awards and exercised stock options are considered outstanding. For diluted EPS, a portion of unvested restricted stock awards and unexercised stock options that are “in-the-money” are also considered common stock equivalents. Restricted stock awards vest 25 percent on each anniversary of the grant date and are not considered outstanding in basic earnings per share until the vesting date.

The following table presents computations of basic and diluted EPS in accordance with accounting principles generally accepted in the United States of America:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net income as reported	\$ 29,916	\$ 26,443	\$ 89,699	\$ 64,708
Weighted-average number of shares of common stock for basic	95,933,048	95,169,772	95,866,711	94,454,190
Incremental effect of dilutive common stock equivalents:				
Unvested restricted stock awards	1,015,739	1,122,371	881,798	1,592,179
Unexercised in-the-money stock options	1,316,341	571,390	1,298,216	778,068
Weighted-average number of share of common stock for diluted	98,265,128	96,863,533	98,046,725	96,824,437
Earnings per share—basic	\$ 0.31	\$ 0.28	\$ 0.94	\$ 0.69
Earnings per share—diluted	\$ 0.30	\$ 0.27	\$ 0.91	\$ 0.67

4. Acquisitions

Exult, Inc.

On June 15, 2004, the Company entered into an Agreement and Plan of Merger with Exult, Inc. (“Exult”) and Eagle Merger Corp., a newly formed wholly owned subsidiary of the Company. Exult is a leading provider of HR business process outsourcing. If the Exult merger is completed, Eagle Merger Corp. will be merged with and into Exult, and Exult will be the surviving corporation and a wholly owned subsidiary of the Company. Completion of the Exult merger is subject to a number of conditions, including approval by the Company’s stockholders and the stockholders of Exult and the expiration of the applicable waiting period or receipt of clearance under the U.S. antitrust regulations of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. If the Exult merger is completed, each share of Exult common stock outstanding immediately prior to the effective time of the merger will be converted into 0.2 shares of Hewitt Class A common stock. The merger is expected to be completed on or about September 30, 2004.

Cyborg Worldwide, Inc.

On June 5, 2003, the Company purchased Cyborg Worldwide, Inc. (“Cyborg”), the parent of Cyborg Systems, Inc., a global provider of human resources management software and payroll services. Cyborg operates within the Company’s Outsourcing segment. The purchase price totaled \$43,645, and was comprised of \$43,000 of cash and \$645 of acquisition related costs, plus the potential for additional performance-based consideration of up to \$30,000, determined annually and payable through 2006. On June 8, 2004, the Company entered an agreement with Cyborg’s selling stockholders to settle the performance-based consideration obligation for \$10,000 which increased the amount of goodwill recorded in connection with this transaction. The Company expects all of the goodwill to be deductible for U.S. tax purposes.

Benefits Administration and Actuarial Business of the Northern Trust Corporation

On June 15, 2003, the Company acquired substantially all of the assets of Northern Trust Retirement Consulting LLC, Northern Trust Corporation’s retirement consulting and administration business (“NTRC”), which provides retirement consulting and actuarial services and defined benefit, defined contribution and retiree health and welfare administration services. The benefits administration business operates within the Company’s Outsourcing segment and the retirement consulting and actuarial business within the Consulting segment. The purchase price was comprised of \$17,600 in cash for the assignment of client, vendor and third-party contract rights and obligations applicable to the acquired business, computer equipment, furniture and leasehold improvements owned or leased by NTRC in its Atlanta, Georgia facility, the assumption of NTRC’s real estate lease obligation for its Atlanta, Georgia facility, and an allocation of \$7,821 to goodwill. The Company expects all of the goodwill to be deductible for U.S. tax purposes.

5. Client Receivables and Unbilled Work in Process

Client receivables and unbilled work in process, net of allowances, at June 30, 2004 and September 30, 2003, consisted of the following:

	<u>June 30, 2004</u>	<u>September 30, 2003</u>
Client receivables	\$291,144	\$ 278,966
Unbilled work in process	187,304	182,464
	<u>\$478,448</u>	<u>\$ 461,430</u>

As of June 30, 2004 and September 30, 2003, \$16,448 and \$7,143, respectively, of long-term unbilled work in process is classified within other assets, net.

6. Goodwill and Other Intangible Assets

The Company tests goodwill for impairment annually or whenever indicators of impairment arise. During the nine months ended June 30, 2004, no impairments were recognized.

The following is a summary of changes in the carrying amount of goodwill for the nine months ended June 30, 2004:

	Outsourcing Segment	Consulting Segment	Total
Balance at September 30, 2003	\$ 26,741	\$232,553	\$259,294
Additions and other adjustments	13,722	(1,634)	12,088
Effect of changes in foreign exchange rates	136	19,734	19,870
Balance at June 30, 2004	\$ 40,599	\$250,653	\$291,252

Goodwill additions during the nine months ended June 30, 2004 resulted from the settlement of the Cyborg performance-based consideration obligation and from the acquisitions of the remaining interest in two of the Company's joint ventures, one in Puerto Rico and one in India. Goodwill adjustments during the nine months ended June 30, 2004 resulted from purchase price allocation adjustments related to the NTRC acquisition and an acquisition in the Netherlands.

Intangible assets with definite useful lives are amortized over their estimated useful lives and are tested for impairment whenever indicators of impairment arise. The following is a summary of intangible assets at June 30, 2004 and September 30, 2003:

	June 30, 2004			September 30, 2003		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Definite useful life						
Capitalized software	\$230,181	\$ 148,659	\$ 81,522	\$219,220	\$ 124,166	\$ 95,054
Trademarks	12,524	5,192	7,332	11,517	2,962	8,555
Customer relationships	109,664	7,499	102,165	102,392	3,407	98,985
Total	\$352,369	\$ 161,350	\$191,019	\$333,129	\$ 130,535	\$202,594

The increase in the gross carrying amounts of trademarks and customer relationships is primarily the result of the impact of foreign currency exchange rates.

Amortization expense related to definite-lived intangible assets for the three and nine months ended June 30, 2004 and 2003, are as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Capitalized software	\$ 8,626	\$8,091	\$26,190	\$23,039
Trademarks	653	539	1,969	1,568
Customer relationships	1,270	179	3,856	179
Total	\$10,549	\$8,809	\$32,015	\$24,786

Estimated amortization expense related to intangible assets with definite lives at September 30, 2003, for each of the years in the five-year period ending September 30, 2008 and thereafter is as follows:

Fiscal year ending:	2004	2005	2006	2007	2008	2009 and thereafter	Total
Estimated intangibles amortization expense	\$39,716	\$32,881	\$26,095	\$17,516	\$10,865	\$75,521	\$202,594

7. Related Party Transactions

From May 31, 2002, through September 30, 2007, Hewitt Associates LLC, a subsidiary of the Company, is providing certain support services to FORE Holdings LLC, formerly known as Hewitt Holdings LLC, primarily in the financial, real estate and legal departments, as may be requested by FORE Holdings from time to time. FORE Holdings will pay Hewitt Associates LLC an annual fee of \$50 for basic services and an additional fee for additional services on a time-and-materials basis. Fees for services Hewitt Associates LLC provided under the services agreement, totaled \$87 for the nine months ended June 30, 2004 and \$382 for the comparable prior year period. All such fees have been paid by FORE Holdings through June 30, 2004.

8. Pension and Postretirement Benefit Plans

The Company has defined benefit pension plans to provide benefits to eligible employees outside of North America. It is the Company's policy to fund these plans in accordance with local practice and legislation. The Company also provides health benefits for retired employees and certain dependents when the employee becomes eligible for these benefits by satisfying plan provisions, which include certain age and service requirements. The health benefit plans covering substantially all U.S. and Canadian employees are contributory, with contributions reviewed annually and adjusted as appropriate.

The components of net periodic benefit costs for the three and nine months ended June 30, 2004 and 2003, include:

	Pension Benefits				Health Benefits			
	Three Months Ended June 30,		Nine Months Ended June 30,		Three Months Ended June 30,		Nine Months Ended June 30	
	2004	2003	2004	2003	2004	2003	2004	2003
Components of Net Periodic Benefit Cost								
Service cost	\$ 2,250	\$ 805	\$ 6,582	\$ 2,358	\$ 295	\$ 201	\$ 885	\$ 603
Interest cost	1,897	1,044	5,510	3,074	173	149	519	448
Expected return on plan assets	(1,751)	(843)	(5,040)	(2,485)	—	—	—	—
Amortization of:								
Unrecognized prior service cost	—	—	—	—	45	40	135	120
Unrecognized loss	90	10	268	29	29	17	87	50
Transition obligation	—	—	—	—	8	8	24	24
Net periodic benefit cost	\$ 2,486	\$ 1,016	\$ 7,320	\$ 2,976	\$ 550	\$ 415	\$ 1,650	\$ 1,245

As of June 30, 2004, \$6,364 of contributions have been made to the pension plans in fiscal 2004. The Company presently anticipates contributing approximately \$4,000 to fund its pension plans during the remainder of 2004 for a total of approximately \$10,000 in 2004. As of June 30, 2004, \$436 of contributions have been made to the health benefit plans in fiscal 2004. The Company presently anticipates contributing an additional \$100 to fund its health benefit plans during 2004 for a total of approximately \$500.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") became effective. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least the actuarial equivalent of Medicare Part D.

The Company has elected to defer the recognition of the federal subsidy within the accumulated postretirement benefit obligation and the net periodic postretirement benefit costs, in accordance with the FASB Staff Position ("FSP") 106-1 ("FSP 106-1"), *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. The financial statements and the notes to the financial statements do not include the effect of the Act on the accumulated postretirement benefit obligation or the net periodic postretirement benefit cost. Specific authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change previously reported information.

9. Stock-Based Compensation Plans

In 2002, the Company adopted the Hewitt Associates, Inc. Global Stock and Incentive Compensation Plan (the “Plan”) for employees and directors. The Plan is administered by the Compensation and Leadership Committee of the Board of Directors of the Company (the “Committee”). Under the Plan, employees and directors may receive awards of nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, and cash-based awards, and employees can also receive incentive stock options. As of June 30, 2004, only restricted stock, restricted stock units and nonqualified stock options have been granted. A total of 25,000,000 shares of Class A common stock has been reserved for issuance under the Plan. As of June 30, 2004, there were 12,428,466 shares available for grant under the Plan.

Restricted Stock and Restricted Stock Units

In connection with the initial public offering in June 2002, the Company granted 5,789,908 shares of Class A restricted stock and restricted stock units at \$19.02 per weighted share to employees. The restricted stock and restricted stock units have substantially the same terms, except the holders of restricted stock units do not have voting rights.

During the three and nine months ended June 30, 2004, compensation and related expenses of \$3,790 and \$12,470, respectively, were recorded for the initial public offering-related awards. During the three and nine months ended June 30, 2003, compensation and related expenses of \$5,649 and \$35,193, respectively, were recorded for the initial public offering-related awards. On June 27, 2004, 783,122 shares of restricted stock vested and 45,287 restricted stock units vested and such restricted stock units were converted to Class A common stock and cash. The Company withheld 252,674 shares of such Class A common stock from the vested shares for the payment of the payroll taxes of the employees associated with the vesting of such restricted stock and restricted stock units. The shares were withheld by the Company at an average cost of \$28.32 and were recorded as treasury stock.

As of June 30, 2004, the \$31,822 of unearned compensation within stockholders’ equity is related to the unvested initial public offering restricted stock awards and will be amortized evenly as the awards vest through June 27, 2006, and adjusted for payroll taxes and forfeitures.

Stock Options

The Committee may grant both incentive stock options and nonqualified stock options to purchase shares of Class A common stock. Subject to the terms and provisions of the Plan, options may be granted to participants in such number, and upon such terms, as determined by the Committee, provided that incentive stock options may not be granted to non-employee directors. The option price is determined by the Committee, provided that for options issued to participants in the United States, the option price may not be less than 100% of the fair market value of the shares on the date the option is granted and no option may be exercisable later than the tenth anniversary of its grant. The nonqualified stock options granted vest ratably over a period of four years. As of June 30, 2004, the Company has 7,479,320 options outstanding with a weighted average exercise price of \$21.80. On July 1, 2004, the Company granted nonqualified stock options to its employees to acquire 3,790,288 shares of the Company’s Class A common stock at a weighted average exercise price of \$27.47.

10. Legal Proceedings

The Company is occasionally subject to lawsuits and claims arising in the normal conduct of business. Management does not expect the outcome of any pending claim to have a material adverse effect on the business, financial condition or results of operations of the Company.

The Company provides indemnifications of varying scope and size to certain customers against claims of intellectual property infringement made by third parties arising from the use of our products or receipt of our services. The Company evaluates estimated losses for such indemnifications under SFAS 5, *Accounting for Contingencies*, as interpreted by FASB Interpretation No. 45, *Guarantor’s Accounting and Disclosure Requirements for Guarantees*,

Including Indirect Guarantees of Indebtedness of Others. Management considers such factors as the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. As of June 30, 2004, the Company had no outstanding claims and was not subject to any pending litigation alleging that the Company's products or services infringe the intellectual property rights of any third parties.

11. Other Comprehensive Income

The following table presents the after-tax components of the Company's other comprehensive income for the periods presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Net income	\$29,916	\$26,443	\$ 89,699	\$64,708
Other comprehensive income:				
Foreign currency translation adjustments	(6,069)	15,151	30,131	18,515
Accumulated other comprehensive income	\$23,847	\$41,594	\$119,830	\$83,223

The change in the foreign currency translation during the three and nine months ended June 30, 2004, as compared to the three and nine months ended June 30, 2003, was primarily due to an decrease in the value of the British pound sterling relative to the U.S. dollar in the three months ended and an increase in the value of the British pound sterling relative to the U.S. dollar in the nine months ended.

12. Segment Data

Under SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, the Company has determined that it has two reportable segments based on similarities among the operating units including homogeneity of services, service delivery methods, and use of technology. The two segments are Outsourcing and Consulting.

- **Outsourcing**—Hewitt applies its human resources expertise and employs its integrated technology systems to administer its clients' human resource programs: benefits, payroll and workforce management. Benefits outsourcing services include health and welfare (such as medical plans), defined contribution (such as 401(k) plans), and defined benefit (such as pension plans). The Company's outsourcing service offering includes payroll administration, which allows Hewitt to provide clients with a standalone payroll service and enables Hewitt to complete its comprehensive range of human resources services. Hewitt's payroll services include fully outsourced payroll processing to payroll software licensing. Hewitt's workforce management outsourcing services include workforce administration, rewards management, recruiting and staffing, performance management, learning and development, and talent management.
- **Consulting**—Hewitt provides a wide array of consulting and actuarial services covering the design, implementation, communication and operation of health and welfare, compensation and retirement plans, and broader human resources programs and processes.

Hewitt operates many of the administrative and support functions of its business through the use of centralized shared service operations to provide an economical and effective means of supporting the Outsourcing and Consulting segments. These shared services include information systems, human resources, general office support and space management, overall corporate management, finance and legal services. Additionally, Hewitt utilizes a client development group that markets the entire spectrum of its services and devotes resources to maintaining existing client relationships. The compensation and related expenses, other operating expenses, and selling, general and administrative expenses of the administrative and marketing functions are not allocated to the business segments, rather, they are included in unallocated shared costs. The costs of information systems, human resources and the direct client delivery activities provided by the client development function are, however, allocated to the Outsourcing and Consulting segments on a specific identification basis or based on usage or headcount.

The table below presents information about the Company's reportable segments for the periods presented:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2004	2003	2004	2003
Outsourcing (1)				
Revenues before reimbursements (net revenues)	\$353,121	\$304,095	\$1,059,195	\$ 908,187
Segment income	67,132	59,581	216,717	181,628
Consulting				
Revenues before reimbursements (net revenues)	\$198,662	\$190,791	\$ 570,887	\$ 545,075
Segment income	36,336	36,440	94,964	102,618
Total Company				
Revenues before reimbursements (net revenues)	\$551,783	\$494,886	\$1,630,082	\$1,453,262
Reimbursements	11,947	12,862	43,817	40,395
Total revenues	\$563,730	\$507,748	\$1,673,899	\$1,493,657
Segment income	\$103,468	\$ 96,021	\$ 311,681	\$ 284,246
Charges not recorded at the Segment level – Initial public offering restricted stock awards (2)	3,790	5,649	12,470	35,193
Unallocated shared costs	45,426	41,944	133,563	126,833
Operating income	\$ 54,252	\$ 48,428	\$ 165,648	\$ 122,220

- (1) On June 5, 2003, the Company acquired Cyborg and on June 15, 2003, the Company acquired substantially all of the assets of NTRC (see Note 4). As such, their results are included in the Company's results from the respective acquisition dates.
- (2) Compensation expense of \$3,790 and \$5,649 for the three months ended June 30, 2004 and 2003, respectively, and \$12,470 and \$35,193 for the nine months ended June 30, 2004 and 2003, respectively, related to the amortization of initial public offering restricted stock awards.

13. Subsequent Event

On July 13, 2004, the Company filed a Registration Statement on Form S-4 with the Securities and Exchange Commission in connection with the merger between the Company and Exult as further described in Note 4.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the information contained in our consolidated financial statements and related notes presented earlier in this Quarterly Report on Form 10-Q. Please also refer to our consolidated financial statements and related notes and the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for additional information. In addition to historical information, this Quarterly Report on Form 10-Q may contain forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management's expectations. Please see some of the risks and uncertainties described below and in the "Notes Regarding Forward-Looking Statements" which appears later in this section.

We use the terms "Hewitt", "the Company", "we", "us" and "our" to refer to the business of Hewitt Associates, Inc. and its subsidiaries.

Hewitt was a wholly-owned subsidiary of Hewitt Holdings LLC prior to Hewitt's initial public offering in June 2002. On April 29, 2004, Hewitt Holdings LLC changed its name to FORE Holdings LLC ("FORE Holdings").

We use the term "owner" to refer to the individuals who are current or retired members of FORE Holdings. These individuals (with the exception of the retired owners) became employees of Hewitt Associates, Inc. upon the completion of our transition to a corporate structure on May 31, 2002.

All references to years, unless otherwise noted, refer to our fiscal years, which end on September 30. For example, a reference to "2004" or "fiscal 2004" means the twelve-month period that ends September 30, 2004. All references to percentages contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" refer to calculations based on the amounts in our consolidated financial statements, presented earlier in this Quarterly Report on Form 10-Q. Certain prior period amounts have been reclassified to conform with the current year presentation.

Overview

Hewitt Associates, Inc., a Delaware corporation, and its subsidiaries provide global human resources outsourcing and consulting services. Of our \$2.0 billion of consolidated net revenues for fiscal 2003, 63% was generated in our Outsourcing segment and 37% was generated in our Consulting segment. For the first nine months of 2004, Outsourcing accounted for 65% of net revenues, while Consulting accounted for 35%.

Outsourcing

Through our outsourcing business, we apply our human resources expertise and employ our integrated technology systems to administer our clients' human resources programs. Under our typical three- to five-year contracts, we generate our fees by assuming and automating the resource-intensive processes required to administer our clients' human resources programs, providing on-line tools and information that support decision-making and transactions by our clients and their employees.

Since we first began providing outsourcing services in 1991, we have made significant investments in technology, personnel and office space to build our capabilities and address market opportunity. To maintain our outsourcing leadership position, we remain committed to making significant ongoing investments in technology, infrastructure, and people, in expanding our business and driving greater efficiencies. With the investments that we have made in the benefits administration business to date, our acquisitions of Cyborg and NTRC and our recently announced planned merger with Exult, Inc., and our investments in workforce management administration, we expect to be able to continue to improve our outsourcing capabilities and attract new clients.

Consulting

In our consulting business, we are engaged by our clients to provide a wide range of human resources services for fees. We experience a high level of recurring work because of our clients' annual needs for certain of our services, such as actuarial valuations of defined benefit plans and consultation regarding the processes of compensation review and health plan selection and negotiation. Certain of our consulting services, however, support more discretionary or event-driven client activities, including the re-engineering of a client's human resources policies, corporate restructuring and change (e.g. mergers and acquisitions), and programs and projects designed to improve human resources effectiveness. As we have seen in our business and industry, the demand for these services can be affected by general economic conditions, the financial position of our clients and the particular strategic activities they may be considering, and, therefore, is variable from period to period and more difficult for us to predict.

Consolidated Financial Highlights

Net revenues increased 11.5% to \$552 million in the third quarter of 2004 from \$495 million in the prior year third quarter. For the nine months ended June 30, 2004, net revenues increased 12.2% to \$1,630 million from \$1,453 million in the comparable prior year period. The net effects of favorable foreign currency translation principally from the strengthening of European currencies relative to the U.S. dollar were approximately \$9 million and \$31 million for the three and nine months ended June 30, 2004. Revenues from acquisitions of approximately \$24 million and \$78 million for the three and nine month periods also contributed significantly to the increases. After adjusting for these factors, net revenues increased \$24 million, or 4.8%, for the three months and \$68 million, or 4.7%, for the nine months ended June 30, 2004. During the third quarter, we continued to see growth in the number of Outsourcing participants we serve. Outsourcing growth was 8.4% and 8.3% on an organic, constant currency basis for the quarter and nine months of 2004, respectively. Consulting revenues declined 1.0% and 1.2% on an organic, constant currency basis for the quarter and nine months of 2004, respectively. For the quarter, there were very small decreases to flat revenues across retirement plan, health benefit management and all other consulting, primarily driven by lower retirement plan consulting in Europe and less demand for certain discretionary consulting projects. For the nine months ended June 30, 2004, declines in demand for our discretionary consulting services, primarily in certain of the other consulting service areas, were offset by growth in health benefit management consulting.

Operating income increased 12.0% to \$54 million from \$48 million in the prior year third quarter and increased 35.5% to \$166 million in the nine months ended June 30, 2004 from \$122 million. During the third quarter of 2004, operating income as a percentage of revenue remained flat at 9.8% in the current and prior year quarter. The decrease in Outsourcing segment margin primarily relates to the efforts to grow our workforce management and payroll businesses and investments in our international benefits outsourcing business. The decrease in Consulting segment margin primarily relates to increased compensation and occupancy expenses relative to revenue growth as well as increased amortization of intangible assets. These declines in segment margin were offset by increased leverage of shared service costs in the three months ended June 30, 2004. For the nine months ended June 30, 2004 and 2003, a non-cash, one-time grant of initial public offering restricted stock awards to employees had a significant impact on the comparability of prior year results. Excluding the amortization of the non-cash initial public offering stock awards of \$12 million and \$35 million for the nine months ended June 30, 2004 and 2003, respectively, operating income was \$178 million and \$157 million for these respective periods, an increase of 13.2% year over year. Excluding the initial public offering stock awards, operating income as a percentage of revenue was 10.9% and 10.8% in the nine months ended June 30, 2004 and 2003, respectively. Increases in Outsourcing segment margin, related to continued efforts to leverage scale and technology in our benefits administration outsourcing business, were offset by decreases in Consulting segment margin, which primarily related to generally flat revenues and increased costs for compensation, office space in connection with a planned office relocation in the United Kingdom and higher amortization of intangible assets than in the prior year.

Exult Merger

On June 15, 2004, the Company entered into an Agreement and Plan of Merger with Exult, Inc. ("Exult") and Eagle Merger Corp., a newly formed wholly owned subsidiary of the Company. Exult is a leading provider of HR business process outsourcing. If the Exult merger is completed, Eagle Merger Corp. will be merged with and into Exult, and Exult will be the surviving corporation and a wholly owned subsidiary of the Company. Completion of the Exult

merger is subject to a number of conditions, including approval by the Company's stockholders and the stockholders of Exult. We have received clearance under the U.S. antitrust regulations of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. If the Exult merger is completed, each share of Exult common stock outstanding immediately prior to the effective time of the merger will be converted into 0.2 shares of Hewitt Class A common stock. The merger is expected to be completed on or about September 30, 2004.

Shelf Registration Statement

On April 16, 2004, the Company filed a Registration Statement on Form S-3 with the Securities and Exchange Commission to facilitate possible future underwritten secondary offerings, block trades and other sales by the former owners and the former partners of Bacon & Woodrow. The registration statement was filed, in part, to facilitate future requests under a registration rights agreement which the Company entered into at the time of its initial public offering. The Company's secondary offering during the summer of 2004 has been delayed indefinitely as a result of the pending Exult merger described above.

Rule 144 Sales

On January 28, 2004, our Board of Directors authorized sales by holders of Class B and Class C common stock of up to 1 million shares per quarter, in the aggregate, pursuant to Rule 144 of the Securities Act of 1933. Since the plan was approved, 857,325 shares of stock have been converted from Class B and Class C common stock to Class A common stock and have been sold under Rule 144.

Critical Accounting Policies and Estimates

For a more detailed description of our significant accounting policies and basis of presentation, see our Annual Report on Form 10-K for the fiscal year ended September 30, 2003.

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements and this quarterly report. The process of determining significant estimates is fact specific and takes into account factors such as historical experience, known facts, current and expected economic conditions and, in some cases, actuarial techniques. We periodically reevaluate these significant factors and make adjustments when facts and circumstances change, however, actual results may differ from estimates. Certain of our accounting policies require higher degrees of judgment than others in their application. These include certain aspects of accounting for revenue recognition, performance-based compensation, accounts receivable and unbilled work in process and goodwill and other intangible assets.

Revenues

We enter into numerous service contracts through our outsourcing and consulting businesses. Outsourcing contract terms typically range from three to five years, while consulting arrangements are generally of a short-term nature. The Company has contracts for multiple services primarily in the Outsourcing segment. In these contracts, standalone deliverables include core services, such as Defined Benefit, Health & Welfare or Defined Contribution Benefit Plan Administration, and standalone ancillary services, such as *Your Total Rewards*, which are tracked and valued separately and recognized consistently over the ongoing service period. Consulting services provided in connection with outsourcing engagements are accounted for at the time services are provided and are valued based on prevailing market rates. Most consulting assignments are also very short-term in nature, so that the risks of recognizing revenue in the wrong period or at different values for separate elements is significantly reduced.

The Company's clients typically pay for consulting services either on a time-and-materials or on a fixed-fee basis. On fixed-fee engagements, revenues are recognized either as services are provided using the proportional performance method and estimates of overall profitability and stages of project completion, or at the completion of a project, based on facts and circumstances of the client arrangement.

Losses on outsourcing or consulting arrangements are recognized during the period in which a loss becomes probable and the amount of the loss is reasonably estimable. Contract or project losses are determined to be the amount by which the estimated direct and a portion of indirect costs exceed the estimated total revenues that will be generated by the arrangement. Estimates are monitored during the term of the arrangement and any changes to estimates are recorded in the current period and can result in either increases or decreases to income.

Performance-Based Compensation

Our compensation program includes a performance-based component that is determined by management. Performance-based compensation is discretionary and is based on individual, team, and total Company performance. The amount of expense for performance-based compensation recognized at interim and annual reporting dates involves judgment, is based on our quarterly and annual results as compared to our internal targets, and takes into account other factors, including industry trends and the general economic environment. Annual performance-based compensation levels may vary from current expectations as a result of changes in the actual performance of the Company, team or individual. As such, accrued amounts are subject to change in future periods if actual future performance varies from performance levels anticipated in prior interim periods.

Accounts Receivable and Unbilled Work In Process

We periodically evaluate the collectibility of our client receivables and unbilled work in process based on a combination of factors. In circumstances where we are aware of a specific client's difficulty in meeting its financial obligations to us (e.g., bankruptcy, failure to pay amounts due to us or to others), we record an allowance for doubtful accounts to reduce the client receivable to what we reasonably believe will be collected. For all other clients, we recognize an allowance for doubtful accounts based on past write-off history and the length of time the receivables are past due. Facts and circumstances may change, which would require us to alter our estimates of the collectibility of client receivables and unbilled work in process. Factors mitigating this risk include our diverse client base and, for the three and nine months ended June 30, 2004 and 2003, no single client accounted for more than 10% of our total revenues.

Goodwill and Other Intangible Assets

We apply the purchase method of accounting for acquisitions. The amounts assigned to the identifiable assets and liabilities acquired in connection with these acquisitions were based on estimated fair values as of the date of the acquisitions, with the remainder recorded as goodwill. Estimates of fair value have been based primarily upon future cash flow projections for the acquired business and net assets, discounted to present value using a risk adjusted discount rate. In connection with these acquisitions, we have recorded significant amounts of intangible assets, including goodwill.

We evaluate our goodwill for impairment whenever indicators of impairment exist, with reviews at least annually. The evaluation is based upon a comparison of the estimated fair value of the reporting unit to which the goodwill has been assigned to the sum of the carrying value of the assets and liabilities for that reporting unit. The fair values used in this evaluation are estimated based upon discounted future cash flow projections for the reporting unit. Our estimate of future cash flows is based on our experience, knowledge and typically third-party advice or market data. However, these estimates can be affected by other factors and economic conditions that can be difficult to predict. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise.

Historical Results of Operations

The following tables set forth our historical results of operations as a percentage of net revenues. The information for each of the three and nine-month periods is derived from unaudited consolidated financial statements which were prepared on the same basis as the annual consolidated financial statements. In our opinion, the information for the three and nine months ended June 30, 2004 and 2003 contains all adjustments, consisting only of normal recurring adjustments, necessary, in the opinion of management, to fairly present this information. Operating results for any period are not necessarily indicative of results for any future periods.

Three Months Ended June 30, 2004 and 2003

	Three Months Ended June 30,		Increase/(Decrease)		% of Net Revenue Three Months Ended June 30,	
	2004	2003	Amount	%	2004	2003
(in thousands)						
Revenues:						
Revenues before reimbursements (net revenues)	\$551,783	\$ 494,886	\$56,897	11.5%	100.0%	100.0%
Reimbursements	11,947	12,862	(915)	(7.1)	2.2	2.6
Total revenues	563,730	507,748	55,982	11.0	102.2	102.6
Operating expenses:						
Compensation and related expenses, excluding initial public offering restricted stock awards	358,561	318,806	39,755	12.5	65.0	64.4
Initial public offering restricted stock awards	3,790	5,649	(1,859)	(32.9)	0.7	1.1
Reimbursable expenses	11,947	12,862	(915)	(7.1)	2.2	2.6
Other operating expenses	103,378	96,511	6,867	7.1	18.7	19.5
Selling, general and administrative expenses	31,802	25,492	6,310	24.8	5.8	5.2
Total operating expenses	509,478	459,320	50,158	10.9	92.4	92.8
Operating income	54,252	48,428	5,824	12.0	9.8	9.8
Other expenses, net	(3,547)	(3,766)	219	(5.8)	(0.6)	(0.8)
Income before income taxes	50,705	44,662	6,043	13.5	9.2	9.0
Provision for income taxes	20,789	18,219	2,570	14.1	3.8	3.7
Net income	\$ 29,916	\$ 26,443	\$ 3,473	13.1%	5.4%	5.3%

Net Revenues

Net revenues for the three months ended June 30, 2004, increased 11.5% to \$552 million from \$495 million in the comparable prior year period. Adjusting for the favorable effects of acquisitions of approximately \$24 million and the net favorable effects of foreign currency translation of approximately \$9 million, net revenues grew 4.8%. Outsourcing net revenues increased by 16.1% to \$353 million in the quarter from \$304 million in the comparable prior year period. Excluding the favorable effects of the acquisitions of Cyborg, NTRC and the majority interest in our Puerto Rico operations of approximately \$22 million and the net favorable effects of foreign currency translation of approximately \$1 million, Outsourcing net revenues increased 8.4% in the quarter. Outsourcing revenue growth was primarily from the addition of core services in benefits administration as well as an increase in one-time projects. Consulting net revenues for the quarter increased by 4.1% to \$199 million from \$191 million in the comparable prior year period. The majority of this growth was due to the net favorable effect of foreign currency translation of approximately \$8 million and the favorable effect of acquisitions of approximately \$2 million for NTRC, the majority interest in our Puerto Rico operations and a small acquisition in Ireland. Adjusting for the effects of foreign currency and the acquisitions, Consulting net revenue declined by 1.0% in the three months ended June 30, 2004, as compared to the prior year period. For the quarter, there were very small decreases to flat revenues across retirement plan, health benefit management and all other consulting, primarily driven by lower retirement plan consulting in Europe and less demand for certain discretionary consulting projects.

Compensation and Related Expenses

Compensation and related expenses (which include all personnel and outside contractor costs and related expenses) increased 12.5% to \$359 million for the three months ended June 30, 2004, from \$319 million in the comparable prior year period and increased as a percentage of net revenues to 65.0% from 64.4%, respectively. This increase as a percentage of net revenues is primarily due to increased personnel to support the growth of benefits administration in Europe and workforce management as well as lower than expected revenues relative to compensation increases in our retirement plan consulting business in Europe, offset by increased leverage of our shared services and increased productivity in performing certain of our more discretionary consulting services. The \$40 million increase in compensation and related expenses was due to increases in employee headcount from acquisitions in 2003 and 2004, increases in outsourcing personnel to support the growth of international benefits administration outsourcing and workforce management, the effects of foreign currency translation, and wage increases. Excluding compensation expenses related to acquisitions of approximately \$15 million and the unfavorable effects of foreign currency translation of approximately \$8 million, compensation and related expenses increased 5.4%.

Initial Public Offering Restricted Stock Awards

In connection with our initial public offering on June 27, 2002, we granted approximately 5.8 million shares of Class A restricted stock and restricted stock units to our employees. Compensation and related payroll tax expenses of approximately \$79 million were recorded as initial public offering restricted stock award expense from June 27, 2002 through June 30, 2004, of which \$4 million and \$6 million was recorded in the three months ended June 30, 2004 and 2003, respectively. The remaining \$32 million of unearned compensation as of June 30, 2004 will be recognized evenly through June 27, 2006, and adjusted for payroll taxes and forfeitures as they arise.

Other Operating Expenses

Other operating expenses (which include technology, occupancy and non-compensation related direct client service costs) increased 7.1% to \$103 million in the three months ended June 30, 2004, from \$97 million in the comparable prior year period, but as a percentage of revenue declined to 18.7% from 19.5% of net revenues quarter over quarter. The decrease as a percentage of net revenues was primarily related to revenues growing at a faster rate than operating expenses and decreases in depreciation on computer equipment, telecommunications expenses and outside vendor expenses. The \$7 million period-over-period increase in other operating expenses primarily reflects the inclusion of operating costs from businesses we acquired in 2003 and 2004, increased occupancy expenses in connection with a planned office relocation in the United Kingdom, which were offset by the decreases in outside vendor expenses for services we provide to our clients and decreased depreciation on computer equipment.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses (which include promotion and marketing costs, corporate professional services, provisions for doubtful accounts and other general office expenses) increased 24.8%, or \$6 million, to \$32 million in the three months ended June 30, 2004, from \$25 million in the comparable prior year period, and increased from 5.2% to 5.8% of net revenues from period over period. The \$6 million increase and the increase as a percentage of revenues primarily reflects the inclusion of SG&A costs from businesses we acquired in 2003 and 2004, increased advertising costs, an increase in amortization expense related to a UK-based customer relationship intangible asset which we began to amortize in the fourth quarter of fiscal 2003 and increased insurance costs, which were offset by lower bad debt expense in the current year quarter.

Other Expenses, Net

Other expenses, net (which includes interest expense, interest income, equity earnings on unconsolidated ventures and other income or expense) were \$4 million in both the three months ended June 30, 2004 and 2003. The largest component, interest expense, was also flat at \$5 million in the current and prior year quarter. As a percentage of net revenues, other expenses, net was 1% or less in both periods.

Provision for Income Taxes

The provision for income taxes was \$21 million for the three months ended June 30, 2004, compared to \$18 million in the comparable prior year period, an increase of 14.1%. The increase in the provision for income taxes in the three months ended June 30, 2004, over the comparable prior year period is due to increased income before income taxes. For the year ending September 30, 2004, the Company expects to report an effective tax rate of approximately 41% of its income before income taxes and as such, has apportioned the estimated income tax provision for the year to the quarter, based on the ratio of each quarter's income before income taxes to estimated annual income before income taxes. These estimates reflect the information available at this time and our best judgment, however, actual income or taxes may differ.

Nine Months Ended June 30, 2004 and 2003

	Nine Months Ended June 30,		Increase/(Decrease)		% of Net Revenue Nine Months Ended June 30,	
	2004	2003	Amount	%	2004	2003
	(in thousands)					
Revenues:						
Revenues before reimbursements (net revenues)	\$1,630,082	\$1,453,262	\$176,820	12.2%	100.0%	100.0%
Reimbursements	43,817	40,395	3,422	8.5	2.7	2.8
Total revenues	1,673,899	1,493,657	180,242	12.1	102.7	102.8
Operating expenses:						
Compensation and related expenses, excluding initial public offering restricted stock awards	1,046,571	940,215	106,356	11.3	64.2	64.7
Initial public offering restricted stock awards	12,470	35,193	(22,723)	(64.6)	0.8	2.4
Reimbursable expenses	43,817	40,395	3,422	8.5	2.7	2.8
Other operating expenses	318,886	285,022	33,864	11.9	19.5	19.6
Selling, general and administrative expenses	86,507	70,612	15,895	22.5	5.3	4.9
Total operating expenses	1,508,251	1,371,437	136,814	10.0	92.5	94.4
Operating income	165,648	122,220	43,428	35.5	10.2	8.4
Other expenses, net	(13,616)	(12,701)	(915)	7.2	(0.9)	(0.9)
Income before income taxes	152,032	109,519	42,513	38.8	9.3	7.5
Provision for income taxes	62,333	44,811	17,522	39.1	3.8	3.0
Net income	\$ 89,699	\$ 64,708	\$ 24,991	38.6%	5.5%	4.5%

Net Revenues

Net revenues for the nine months ended June 30, 2004, increased 12.2% to \$1,630 million from \$1,453 million in the comparable prior year period. Adjusting for the favorable effects of acquisitions of approximately \$78 million and foreign currency translation of approximately \$31 million, net revenues grew 4.7%. Outsourcing net revenues increased by 16.6% to \$1,059 million, from \$908 million in the comparable prior year period. Excluding the favorable effects of the acquisitions of Cyborg, NTRC, and the majority interest in our Puerto Rico operations of approximately \$72 million, and the effects of favorable foreign currency translation of approximately \$4 million, Outsourcing net revenues increased 8.3% in the nine months ended June 30, 2004. Outsourcing revenue growth was from the addition of core services in benefits administration as well as an increase in one-time projects in the fiscal first and third quarters. Consulting net revenues increased by 4.7% to \$571 million from \$545 million in the

comparable prior year period. The majority of this growth was due to the effect of favorable foreign currency translation of approximately \$27 million and the effect of acquisitions of approximately \$6 million for NTRC, the majority interest in our Puerto Rico operations and a small acquisition in Ireland. Adjusting for the favorable effects of foreign currency and the acquisitions, Consulting net revenues decreased 1.2% in the nine months ended June 30, 2004, as compared to the prior year period. Declines in demand for our discretionary consulting services, primarily in certain of our other consulting service areas, were offset by growth in health benefit management consulting.

Compensation and Related Expenses

Compensation and related expenses increased 11.3% to \$1,047 million for the nine months ended June 30, 2004, from \$940 million in the comparable prior year period, but declined as a percentage of net revenues to 64.2% from 64.7%, respectively. This decrease as a percentage of net revenues is primarily due to our continued effort to increase productivity and leverage technology within our benefits administration outsourcing business, increased productivity in certain of our discretionary consulting services and the leveraging of shared services personnel. These improvements were partially offset by increased personnel to support the growth of workforce management and lower than expected revenues relative to compensation increases in our retirement plan consulting business. The \$106 million increase in compensation and related expenses was due to increases in employee headcount from acquisitions in 2003 and 2004, the effects of foreign currency translation, wage increases, and increases in outsourcing personnel to support the growth of benefits administration outsourcing and workforce management. Excluding compensation expenses related to acquisitions of approximately \$52 million and the unfavorable effects of foreign currency translation of approximately \$24 million, compensation and related expenses as of June 30, 2004, grew 3.2%.

Initial Public Offering Restricted Stock Awards

In connection with our initial public offering on June 27, 2002, we granted approximately 5.8 million shares of Class A restricted stock and restricted stock units to our employees. Compensation and related payroll tax expenses of approximately \$79 million were recorded as initial public offering restricted stock award expense from June 27, 2002 through June 30, 2004, of which \$12 million was recorded in the nine months ended June 30, 2004 and \$35 million was recorded in the comparable prior year period. The decrease in the initial public offering restricted stock award expense for the nine months ended June 30, 2004 over the comparable prior year period was due to the timing of the vesting of the awards. The remaining \$32 million of unearned compensation as of June 30, 2004 will be recognized evenly through June 27, 2006, and adjusted for payroll taxes and forfeitures as they arise.

Other Operating Expenses

Other operating expenses increased 11.9% to \$319 million in the nine months ended June 30, 2004, from \$285 million in the comparable prior year period, but as a percentage of revenue declined slightly to 19.5% from 19.6% period over period. The \$34 million period-over-period increase in other operating expenses primarily reflects the inclusion of operating costs from businesses acquired in 2003 and 2004, increased occupancy expenses in connection with a planned office relocation in the United Kingdom, partially offset by lower depreciation on computer equipment.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses increased 22.5%, to \$87 million in the nine months ended June 30, 2004, from \$71 million in the comparable prior year period. The \$16 million increase in SG&A expenses resulted from the inclusion of SG&A costs from businesses acquired in 2003 and 2004, increased insurance costs, an increase in amortization expense related to a UK-based customer relationship intangible asset which we began to amortize in the fourth quarter of fiscal 2003, and increased professional service fees. As a percentage of net revenues, SG&A costs increased slightly from 4.9% to 5.3% period over period.

Other Expenses, Net

Other expenses, net were \$14 million in the nine months ended June 30, 2004, compared to \$13 million in the comparable prior year period. The largest component, interest expense, decreased to \$14 million in the nine months ended June 30, 2004 from \$15 million in the comparable prior year period. The decrease in the interest expense is primarily due to decreased principal balances on our fixed rate long-term debt period over period. As a percentage of net revenues, other expenses, net was 1% in both periods.

Provision for Income Taxes

The provision for income taxes was \$62 million for the nine months ended June 30, 2004, compared to \$45 million in the comparable prior year period, an increase of 39.1%. The increase in the provision for income taxes in the nine months ended June 30, 2004, over the comparable prior year period is due to increased income before income taxes. For the year ending September 30, 2004, the Company expects to report an effective tax rate of approximately 41% of its income before income taxes and as such, has apportioned the estimated income tax provision for the year to the quarter, based on the ratio of each quarter's income before income taxes to estimated annual income before income taxes. These estimates reflect the information available at this time and our best judgment, however, actual income or taxes may differ.

Segment Results

We operate many of the administrative functions of our business through centralized shared service operations, an arrangement that we believe is the most economical and effective means of supporting the Outsourcing and Consulting segments. These shared service functions include information systems, human resources, general office support and space management, overall corporate management, finance and legal services. Additionally, we utilize a client development group that markets the entire spectrum of our services and devotes its resources to maintaining existing client relationships. The compensation and related expenses, other operating expenses, and selling, general and administrative expenses of the administrative and marketing functions are not generally allocated to the business segments, rather, they are included in unallocated shared costs. The costs of information systems, human resources and the direct client delivery activities provided by the client development function are, however, allocated to the Outsourcing and Consulting segments on a specific identification basis or based on usage or headcount. Operating income before unallocated shared costs is referred to as "segment income" throughout this discussion.

Reconciliation of Segment Results to Total Company Results (in thousands)

Three Months Ended June 30, 2004 and 2003

	Three Months Ended June 30,		Increase/(Decrease)	
	2004	2003	Amount	%
Outsourcing (1)				
Revenues before reimbursements (net revenues)	\$353,121	\$304,095	\$49,026	16.1%
Segment income	67,132	59,581	7,551	12.7%
Segment income as a percentage of segment net revenues	19.0%	19.6%		
Consulting				
Revenues before reimbursements (net revenues)	\$198,662	\$190,791	\$ 7,871	4.1%
Segment income	36,336	36,440	(104)	(0.3)%
Segment income as a percentage of segment net revenues	18.3%	19.1%		
Total Company				
Revenues before reimbursements (net revenues)	\$551,783	\$494,886	\$56,897	11.5%
Reimbursements	11,947	12,862	(915)	(7.1)%
Total revenues	\$563,730	\$507,748	\$55,982	11.0%
Segment income	\$103,468	\$ 96,021	\$ 7,447	7.8%
Charges not recorded at the Segment level – Initial public offering restricted stock awards (2)	3,790	5,649	(1,859)	(32.9)%
Unallocated shared costs	45,426	41,944	3,482	8.3%
Operating income	\$ 54,252	\$ 48,428	\$ 5,824	12.0%

(1) On June 5, 2003, the Company acquired Cyborg and on June 15, 2003, the Company acquired substantially all of the assets of NTRC. As such, their results are included in the Company's results from the respective acquisition dates.

(2) Compensation expense of \$4 million and \$6 million relates to the amortization of initial public offering restricted stock awards for the three months ended June 30, 2004 and 2003, respectively.

Outsourcing

Outsourcing net revenues increased by 16.1% to \$353 million in the three months ended June 30, 2004, from \$304 million in the comparable prior year period. The revenue growth was due, in part, to the addition of revenues from the fiscal 2003 acquisitions of Cyborg and NTRC, the fiscal 2004 second quarter acquisition of the majority interest in our Puerto Rico operations, as well as modest gains from foreign currency translation. Excluding the effects of these acquisitions of approximately \$22 million, and favorable foreign currency translation of approximately \$1 million, Outsourcing net revenues increased 8.4% over the prior year quarter. This growth was primarily due to the addition of core services in the benefits administration business as well as an increase in one-time projects.

Outsourcing segment income increased 12.7% to \$67 million in the three months ended June 30, 2004, from \$60 million in the prior year comparable period. Outsourcing segment income as a percentage of outsourcing net revenues decreased to 19.0% in the three months ended June 30, 2004, from 19.6% in the comparable prior period. Excluding the effects of the acquisitions of approximately \$5 million, segment income as a percentage of outsourcing net revenues was 18.9% in the three months ended June 30, 2004. This decrease in margins is primarily due to increased personnel to support the development and growth of our workforce management and payroll businesses and investments in our international benefits outsourcing business, which was partially offset by increased leverage of technology to drive down costs within benefits administration.

Consulting

Consulting net revenues increased by 4.1% to \$199 million in the three months ended June 30, 2004, from \$191 million in the comparable prior year period. The majority of this growth was due to favorable foreign currency translation of approximately \$8 million, principally from the strengthening of European currencies relative to the U.S. dollar period-over-period, and the favorable effects of acquisitions of approximately \$2 million, including NTRC, a small acquisition in Ireland, and the acquisition of the majority interest in our Puerto Rico operations. Adjusting for the effects of favorable foreign currency translation and the acquisitions, Consulting net revenues declined by 1.0% for the three months ended June 30, 2004, as compared to the comparable prior year period. For the quarter, there were very small decreases to flat revenues across retirement plan, health benefit management and all other consulting, primarily driven by lower retirement plan consulting in Europe and less demand for certain discretionary consulting projects.

Consulting segment income remained flat at \$36 million for the three months ended June 30, 2004 and the comparable prior year period, and as a percentage of Consulting net revenues declined to 18.3% from 19.1%, respectively. Excluding the effects of the acquisitions of approximately \$2 million, segment income as a percentage of Consulting net revenues was 17.7% for the three months ended June 30, 2004. The period-over-period decrease in margins is primarily due to changes in foreign earnings mix, in part due to increased compensation and occupancy expenses relative to revenue growth as well as increased amortization of the UK-based customer relationship intangible asset in the three months ended June 30, 2004.

Reconciliation of Segment Results to Total Company Results (in thousands)

Nine Months Ended June 30, 2004 and 2003

	Nine Months Ended June 30,		Increase/(Decrease)	
	2004	2003	Amount	%
Outsourcing (1)				
Revenues before reimbursements (net revenues)	\$1,059,195	\$ 908,187	\$151,008	16.6%
Segment income	216,717	181,628	35,089	19.3%
Segment income as a percentage of segment net revenues	20.5%	20.0%		
Consulting				
Revenues before reimbursements (net revenues)	\$ 570,887	\$ 545,075	\$ 25,812	4.7%
Segment income	94,964	102,618	(7,654)	(7.5)%
Segment income as a percentage of segment net revenues	16.6%	18.8%		
Total Company				
Revenues before reimbursements (net revenues)	\$1,630,082	\$1,453,262	\$176,820	12.2%
Reimbursements	43,817	40,395	3,422	8.5%
Total revenues	\$1,673,899	\$1,493,657	\$180,242	12.1%
Segment income	\$ 311,681	\$ 284,246	\$ 27,435	9.7%
Charges not recorded at the Segment level – Initial public offering restricted stock awards (2)	12,470	35,193	(22,723)	(64.6)%
Unallocated shared costs	133,563	126,833	6,730	5.3%
Operating income	\$ 165,648	\$ 122,220	\$ 43,428	35.5%

(1) On June 5, 2003, the Company acquired Cyborg and on June 15, 2003, the Company acquired substantially all of the assets of NTRC. As such, their results are included in the Company's results from the respective acquisition dates.

- (2) Compensation expense of \$12 million and \$35 million relates to the amortization of initial public offering restricted stock awards for the nine months ended June 30, 2004 and 2003, respectively.

Outsourcing

Outsourcing net revenues increased by 16.6% to \$1,059 million in the nine months ended June 30, 2004, from \$908 million in the comparable prior year period. The revenue growth was due, in part, to the addition of revenues from the newly acquired Cyborg, NTRC and the majority interest in our Puerto Rico operations of approximately \$72 million, as well as favorable effects of foreign currency translation of approximately \$4 million. Excluding the effects of these acquisitions and favorable foreign currency translation, Outsourcing net revenues increased 8.3% over the prior year period. This Outsourcing net revenue growth was primarily in the benefits administration business and was due to the addition of new core services as well as an increase in one-time projects in the fiscal first and third quarters.

Outsourcing segment income increased 19.3% to \$217 million in the nine months ended June 30, 2004, from \$182 million in the prior year comparable period. Outsourcing segment income as a percentage of outsourcing net revenues increased slightly to 20.5% for the nine months ended June 30, 2004, from 20.0% for the comparable prior year period. Excluding the effects of the acquisitions of approximately \$11 million, segment income as a percentage of Outsourcing net revenues was 20.8% in the nine months ended June 30, 2004. The increase in margins was due to continued efforts to leverage our technology and scale to drive down costs within our benefits administration outsourcing business, which was partially offset by increased personnel to support the development and growth of our workforce management and payroll offerings.

Consulting

Consulting net revenues increased by 4.7% to \$571 million in the nine months ended June 30, 2004, from \$545 million in the comparable prior year period. The majority of this growth was due to favorable foreign currency translation and the acquisition of NTRC, a small acquisition in Ireland, and the acquisition of a majority interest of our Puerto Rico operations. Adjusting for the effects of favorable foreign currency translation of approximately \$27 million and the acquisitions of approximately \$6 million, Consulting net revenues declined 1.2% in the nine months ended June 30, 2004, over the comparable prior year period. Declines in demand for our discretionary consulting services, primarily in certain of our other consulting service areas, were offset by growth in health benefit management consulting.

Consulting segment income declined 7.5% to \$95 million for the nine months ended June 30, 2004, from \$103 million in the comparable prior year period. Consulting segment income as a percentage of consulting net revenues declined to 16.6% from 18.8%, respectively. Excluding the effects of the acquisitions of approximately \$5 million, segment income as a percentage of Consulting net revenues was 16.0% for the nine months ended June 30, 2004. The period-over-period decrease in margins is primarily due to changes in foreign earnings mix, in part due to increased compensation and office space and relocation expenses relative to revenue growth and increased amortization of the UK-based customer relationship intangible asset in the nine months ended June 30, 2004.

Liquidity and Capital Resources

We have historically funded our growth and working capital requirements with internally generated funds, credit facilities and term notes. Our change to a corporate structure in May 2002 and our initial public offering in June 2002 enhanced our ability to access public market financing to fund new investments and acquisitions, as well as to meet ongoing and future capital resource needs.

Summary of Cash Flows (in thousands)	Nine Months Ended June 30,	
	2004	2003
Cash provided by Operating activities	\$163,461	\$ 182,348
Cash used in Investing activities	(70,392)	(119,937)
Cash used in Financing activities	(45,778)	(37,550)
Effect of exchange rates on cash	690	1,574
Net increase in cash and cash equivalents	47,981	26,435
Cash and cash equivalents at beginning of period	227,505	136,450
Cash and cash equivalents at end of period	\$275,486	\$ 162,885

Cash and cash equivalents were \$275 million and \$163 million at June 30, 2004 and 2003, respectively, an increase of \$113 million or 69%. Working capital, defined as current assets less current liabilities, was \$378 million at June 30, 2004, compared to \$284 million at September 30, 2003, an increase of \$94 million or 33%.

For the nine months ended June 30, 2004 and 2003, cash provided by operating activities was \$163 million and \$182 million, respectively. The decrease in cash provided by operating activities was primarily due to limited deferred billing arrangements, the timing of cash collection of receivables and lower levels of advance billings than in the prior year, partially offset by increases in accounts payable and other accrued expenses. The amount of profit sharing and deferred compensation which was paid in early fiscal 2004 and related to fiscal 2003 results, was lower than in the prior year due to lower fiscal 2003 financial performance relative to targets. Variable compensation paid in early 2004 for the 2003 fiscal year, was higher as more employees participated in the variable compensation program for a full year in fiscal 2003 than in fiscal 2002. In late fiscal 2002, participation increased as a result of the FORE Holdings owners who became employees of Hewitt Associates upon incorporation and the inclusion of Bacon & Woodrow employees at the time of the acquisition.

For the nine months ended June 30, 2004 and 2003, cash used in investing activities was \$70 million and \$120 million, respectively. The decrease in cash used in investing activities was primarily due to less net cash paid for acquisitions in the current year than in the prior year. Excluding cash paid for acquisitions, cash used in investing activities increased by \$3 million due to increased expenditures for property and equipment, offset by lower expenditures for software and software licenses than in the prior year. The Company's property and equipment expenditures were primarily for computer and telecommunications equipment for the Outsourcing segment and leasehold improvements and furniture and fixtures related to the relocation to new office space in the United Kingdom.

For the nine months ended June 30, 2004 and 2003, cash used in financing activities was \$46 million and \$38 million, respectively. The decrease in cash from financing activities was primarily due to repayments of short-term borrowings in the United Kingdom, which were secured in early 2004 to fund the payment of fiscal 2003 variable compensation in early 2004. More employees participated in the variable compensation program in 2003 as a result of the acquisition of Bacon & Woodrow in late-fiscal 2002. This increase in short-term borrowings was repaid during the nine months ended June 30, 2004.

We incur significant cash outflows for upfront implementation efforts on new outsourcing services. These costs are capitalized as Deferred Contract Costs and amortized over the life of the respective outsourcing arrangements. Similarly, upfront implementation fees are also deferred as Deferred Contract Revenues and amortized over the life of the respective outsourcing arrangements. Historically, for most arrangements, we received upfront implementation fees for those efforts, however, implementation fees may also be received over the ongoing services period. We have recently seen a shift to more of our implementation fees being recovered over the ongoing services period. If this shift were to continue, this will reduce our operating cash flows in the short-term.

Commitments

Significant ongoing commitments consist primarily of leases and debt.

Operating Leases

Prior to fiscal year 2003, the Company entered into certain real estate transactions with FORE Holdings and its subsidiaries, Hewitt Properties I LLC, Hewitt Properties II LLC, Hewitt Properties III LLC, Hewitt Properties IV LLC, Hewitt Properties VII LLC, The Bayview Trust, and Overlook Associates, an equity method investment of FORE Holdings. As of June 30, 2004, all of the Company's leases with FORE Holdings and its subsidiaries are classified as operating leases. The investments in the properties owned by these related parties were funded through capital contributions by FORE Holdings and third party debt. This debt is not reflected on the Hewitt Associates' balance sheet as the obligation represented by the debt is not an obligation of, nor guaranteed by, the Company. The future minimum aggregate lease payments on these leases totaled \$471 million as of September 30, 2003.

We also have various third-party operating leases for office space, furniture and equipment with terms ranging from one to twenty years. As of September 30, 2003, the future minimum aggregate lease payments on these leases totaled \$316 million.

Capital Leases

During the third quarter of fiscal 2002, we entered into two 15-year capital leases for office space. At inception of the leases, we recorded \$89 million in buildings and long-term debt to reflect the long-term capital lease obligations. Lease payments are made in monthly installments at 7.33% interest. As of June 30, 2004, the outstanding debt related to these leases was \$84 million. One of the leases, totaling approximately \$23 million at June 30, 2004, was with a related party, The Bayview Trust. However, on March 7, 2003, The Bayview Trust sold the building and our lease was assigned to the third-party purchaser of the building.

Our computer and telecommunications equipment installment notes and capitalized leases are secured by the related equipment. The amounts due are payable over three- to five-year terms and are payable in monthly or quarterly installments at various interest rates ranging from 5.9%-to-7.0%. At June 30, 2004, the outstanding balance on the equipment financing agreements was \$0.3 million.

Debt

Variable Interest Rate Debt

Our debt consists primarily of lines of credit, term notes, and equipment financing arrangements. We currently have one domestic unsecured line of credit facility. The three-year facility provides for borrowings up to \$75 million. Borrowings under the facility accrue interest at LIBOR plus 52.5-to-72.5 basis points or the prime rate, at our option. Borrowings are repayable upon demand or at expiration of the facility on September 27, 2005. Quarterly facility fees ranging from 10-to-15 basis points are charged on the average daily commitment under the facility. If the utilization under the facility exceeds 50% of the commitment, an additional utilization fee is assessed at a rate of 0.125% per annum. At June 30, 2004, there was no outstanding balance on the facility.

Hewitt Bacon & Woodrow Ltd., a U.K. subsidiary, has an unsecured British pound sterling line of credit permitting borrowings up to £17 million until expiration of the facility on July 31, 2004, at a current rate of 5.53%. As of June 30, 2004, there was no outstanding balance on the line of credit. There was other foreign debt outstanding at June 30, 2004 totaling approximately \$2 million, pursuant to local banking relationships in over a half-dozen countries.

We have a contract with a lender to guarantee borrowings of our subsidiaries up to \$20 million in multiple currency loans and letters of credit. There is no fixed termination date on this contract. This contract allows Hewitt's foreign subsidiaries to secure financing at rates based on Hewitt's credit-worthiness; however, the terms and conditions of the financing for each of our foreign offices have not yet been finalized. There were no borrowings under the contract as of June 30, 2004.

Fixed Interest Rate Debt

We have issued unsecured senior term notes to various financial institutions consisting primarily of insurance companies totaling \$134 million as of June 30, 2004. Of this amount, \$10 million bears interest at 7.65% and is repayable in October 2005; \$15 million bears interest at 7.90% and is repayable in October 2010; \$15 million bears interest at 7.93% and is repayable in June 2007; \$10 million bears interest at 8.11% and is repayable in June 2010; \$9 million bears interest at 7.94% and is repayable in five annual installments which began in March 2003; \$35 million bears interest at 8.08%, and is repayable in five annual installments beginning in March 2008; and \$40 million bears interest at 7.45%, and is repayable in five annual installments which began in May 2004. The unsecured senior term notes include provisions for significant early payment penalties.

A number of our debt agreements contain financial and other covenants including, among others, covenants restricting our ability to incur indebtedness and create liens, to sell the assets or stock of a collateralized subsidiary, and to pay dividends or make distributions to FORE Holdings' owners, a violation of which would result in a default. Our debt agreements also contain covenants requiring Hewitt Associates LLC and its affiliates to maintain a minimum level of net worth of \$225 million at June 30, 2004, to maintain a maximum ratio of total debt to net worth of 0.45 to 1.00, to maintain interest rate coverage of at least 2.00-to-1.00 and to maintain a leverage ratio not to exceed 2.25-to-1.00. At June 30, 2004, we were in compliance with the terms of our debt agreements.

Self-Insurance

We established a captive insurance subsidiary in fiscal 2003 as a cost-effective way to self-insure against certain business risks and losses. To date, the captive insurance subsidiary has issued policies to cover the deductible portion of various insured exposures including the deductible portions of our workers compensation and professional liability insurance.

We believe the cash on hand, together with funds from operations, other current assets, and existing credit facilities will satisfy our expected working capital, contractual obligations, capital expenditures, and investment requirements for at least the next 12 months and the foreseeable future.

Note Regarding Forward-Looking Statements

This report contains forward-looking statements relating to our operations that are based on our current expectations, estimates and projections. Words such as "anticipates," "believes," "continues," "estimates," "expects," "goal," "intends," "may," "opportunity," "plans," "potential," "projects," "forecasts," "should," "will", and similar expressions are intended to identify such forward-looking statements. These statements 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 that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements. As a result, these statements speak only as of the date they were made.

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

- The actions of our competitors could adversely impact our results.
- A prolonged economic downturn could have a material adverse effect on our results.
- Our ability to successfully manage our significant capital investments and acquisitions, including our ability to successfully integrate acquired companies.
- In our outsourcing business, early contract terminations could cause our business to be less profitable than anticipated.
- The loss of a significantly large client or several clients could have a material adverse effect on our revenues.
- If we are not able to anticipate and keep pace with rapid changes in government regulations or if government regulations increase the costs of delivering our services or decrease the need for our services, our business may be negatively affected.

- If we are not able to keep pace with rapid changes in technology or if growth in the use of technology in business is not as rapid as in the past, our business may be negatively affected.
- If our clients are not satisfied with our services, we may face damage to our professional reputation or legal liability.
- The loss of key employees may damage or result in the loss of client relationships.
- Our global operations and expansion strategy entail complex management, foreign currency, legal, tax and economic risks.
- If we fail to establish and maintain alliances for developing, marketing, and delivering our services, our ability to increase our revenues and profitability may suffer.
- We have only a limited ability to protect the intellectual property rights that are important to our success, and we face the risk that our services or products may infringe upon the intellectual property rights of others.
- We rely on our computing and communications infrastructure and the integrity of these systems, and our revenue growth depends, in part, on our ability to use the Internet as a means for delivering human resources services.
- We rely on third parties to provide services and their failure to perform the service could do harm to our business.
- Our profitability will suffer if we are not able to maintain our prices and control our costs, including staffing costs.
- Our ability to recruit, retain and motivate employees and to compete effectively.
- Tightening insurance markets may reduce available coverage and result in increased premium costs and/ or higher self retention of risks.
- Our client contracts and vendor relationships may not yield the results we expect.
- Our transition to a corporate structure may adversely affect our ability to recruit, retain and motivate certain of our former owners and other employees, which in turn, could adversely affect our ability to compete effectively and to grow our business.
- We will continue to be controlled by our initial stockholders, many of whom are our employees, and their interests may differ from those of our other stockholders.
- Our stock price may decline due to the large number of shares of common stock eligible for future sale.

For a more detailed discussion of our risk factors, see the information under the heading “Risk Factors” in our Registration Statements on Form S-4 (File No. 333-117326) filed with the Securities Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or for any other reason.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

We are exposed to market risk primarily from changes in interest rates and foreign currency exchange rates. Historically, we have generally not entered into hedging transactions, such as foreign currency forward contracts or interest rate swaps, to manage this risk due to our low percentage of foreign debt and restrictions on our fixed rate debt. At June 30, 2004, we were not a party to any hedging transaction or derivative financial instrument.

Interest rate risk

We are exposed to interest rate risk primarily through our portfolio of cash and cash equivalents and debt.

Our portfolio of cash and cash equivalents is designed for safety of principal and liquidity. We invest in the highest rated money market investments and regularly monitor the investment ratings. The investments are subject to inherent interest rate risk as investments mature and are reinvested at current market interest rates.

At June 30, 2004, 100% of our long-term debt was at a fixed rate. Our fixed rate debt consists of our unsecured senior term notes. At June 30, 2004, a 10 percent decrease in the levels of interest rates with all other variables held constant would result in an increase in the fair market value of our fixed rate debt of \$2.8 million. At June 30, 2004, a 10 percent increase in the levels of interest rates with all other variables held constant would result in a decrease in the fair market value of our fixed rate debt of \$2.7 million.

Our short-term debt with a variable rate consisted of our unsecured line of credit, which has an interest rate of LIBOR plus 52.5- to-72.5 basis points or the prime rate, at our option. As of June 30, 2004, there was no outstanding balance on this line of credit. In addition, Hewitt Bacon & Woodrow Ltd., our U.K. subsidiary, has an unsecured British pound sterling line of credit permitting borrowings of up to £17 million until expiration of the facility on July 31, 2004, at a current rate of 5.53%. As of June 30, 2004, there was no outstanding balance on the line of credit. There was other foreign debt outstanding June 30, 2004, totaling approximately \$2 million, pursuant to local banking relationships in over a half-dozen countries. In total, the outstanding balance on this line of credit and other foreign debt was \$2 million as of June 30, 2004.

Our foreign subsidiaries maintained debt with an effective interest rate of 7.98% and 7.16% during the three and nine months ended June 30, 2004, respectively. A one percentage point increase would have increased our interest expense by approximately \$0.03 million and \$0.14 million for the three and nine months ended June 30, 2004, respectively. We also maintain an invested cash portfolio which earned interest at an average rate of 1.22% during the nine months ended June 30, 2004. A one percentage point increase would have increased our interest income by approximately \$0.50 million and \$1.55 million for the three and nine months ended June 30, 2004, respectively. Therefore, the net effect of a one percentage point increase in interest rates would have been approximately \$0.47 million and \$1.41 million in net additional income (or net decrease in income from a one percentage point decrease in the rate) for the three and nine months ended June 30, 2004, respectively.

Foreign exchange risk

For both the three and nine months ended June 30, 2004, revenues from U.S. operations as a percent of total revenues was 81%. Foreign currency losses were \$183 and \$686 for the three and nine months ended June 30, 2004. Foreign currency other comprehensive income (loss) was a loss of \$6 million and income of \$30 million for the three and nine months ended June 30, 2004, which primarily was due to the foreign currency translation in the United Kingdom resulting from the weakening of the British pound sterling relative to the U.S. dollar from March 31, 2004 to June 30, 2004. The increase over the nine months was due to the strengthening of the British pound sterling relative to the U.S. dollar from September 30, 2003 to June 30, 2004. We do not enter into any foreign currency forward contracts for speculative or trading purposes.

Operating in international markets means that we are exposed to movements in these foreign exchange rates, primarily the British pound sterling and the Euro. Approximately 11% of our net revenues for the three and nine months ended June 30, 2004 were from the United Kingdom. Approximately 3% of our net revenues for the three and nine months ended June 30, 2004 were from countries whose currency is the Euro. Changes in these foreign exchange rates would have the largest impact on our translating our international operations results into U.S. dollars. A 10% change in the average exchange rate for the British pound sterling for the three and nine months ended June 30, 2004, would have impacted our pre-tax net operating income by approximately \$0.2 million and \$1.4 million, respectively. A 10% change in the average exchange rate for the Euro would have impacted our pre-tax net operating income by approximately \$0.1 million for both the three and nine months ended June 30, 2004.

Item 4. Controls and Procedures

Our chief executive officer and our chief financial officer have concluded, based on their evaluation as of the end of the period covered by this Quarterly Report, that the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's

rules and forms. There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2004, that have materially affected, or reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is occasionally subject to lawsuits and claims arising out of the normal conduct of business. Management does not expect the outcome of pending claims to have a material adverse affect on the business, financial condition or results of operations.

ITEM 6. Exhibits and Reports on Form 8-K

a. Exhibits.

- 2.1 Agreement and Plan of Merger, dated as of June 15, 2004, by and among Exult, Inc., Hewitt Associates, Inc. and Eagle Merger Corp (incorporated by reference to Exhibit 2.1 to Hewitt Associates, Inc.'s Registration Statement on Form S-4, Registration No. 333-117326).
- 10.1 Stockholders Agreement, dated as of June 15, 2004, by and among Hewitt Associates, Inc., General Atlantic Partners 54, L.P., General Atlantic Partners 57, L.P., General Atlantic Partners 60, L.P., GAP Coinvestment Partners, L.P. and GAP Coinvestment Partners II, L.P. (incorporated by reference to Exhibit 99.2 to Hewitt Associates, Inc.'s Current Report on Form 8-K, dated June 15, 2004).
- 10.2 Stockholders Agreement, dated as of June 15, 2004, by and among Hewitt Associates, Inc., Kevin M. Campbell, James C. Madden, V., Michael J. Salvino and Stephen M. Unterberger (incorporated by reference to Exhibit 99.3 to Hewitt Associates, Inc.'s Current Report on Form 8-K, dated June 15, 2004).
- 31.1 Certification of Chief Executive Officer pursuant to 15 U.S.C. Section 10A, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification of Chief Financial Officer pursuant to 15 U.S.C. Section 10A, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

b. Reports on Form 8-K filed during the quarter.

Current Report on Form 8-K dated May 4, 2004 (date of earliest event reported), furnished on May 11, 2004, with respect to the Company's earnings release for the quarter ended March 31, 2004.

Current Report of Form 8-K dated June 16, 2004 (date of earliest event reported), furnished on June 16, 2004, with respect to the Company's announced agreement of merger with Exult, Inc.

Current Report on Form 8-K dated June 15 (date of earliest event reported), furnished on June 18, 2004, with respect to the Company's agreement and plan of merger with Exult, Inc.

ITEMS 2, 3, 4 And 5 Are Not Applicable And Have Been Omitted

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.

HEWITT ASSOCIATES, INC.

(Registrant)

Date: July 30, 2004

By: /s/ Dan A. DeCanniere

Dan A. DeCanniere
Chief Financial Officer
(principal financial and accounting officer)

CERTIFICATIONS

I, Dale L. Gifford, Chief Executive Officer, certify that:

1. I have reviewed this report of Hewitt Associates, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - a) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

By: /s/ Dale L. Gifford

Dale L. Gifford
Chief Executive Officer

I, Dan A. DeCanniere, Chief Financial Officer, certify that:

1. I have reviewed this report of Hewitt Associates, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2004

By: /s/ Dan A. DeCanniere

Dan A. DeCanniere
Chief Financial Officer

CERTIFICATION

In connection with this Quarterly Report of Hewitt Associates, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that: 1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

Date: July 30, 2004

By: /s/ Dale L. Gifford

Dale L. Gifford
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Hewitt Associates, Inc. and will be retained by Hewitt Associates, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as and exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.

CERTIFICATION

In connection with this Quarterly Report of Hewitt Associates, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that: 1) the Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

Date: July 30, 2004

By: /s/ Dan A. DeCanniere

Dan A. DeCanniere
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Hewitt Associates, Inc. and will be retained by Hewitt Associates, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as and exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.