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**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2007

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*

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**HEWITT ASSOCIATES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation)

**100 Half Day Road; Lincolnshire, Illinois**

(Address of principal executive offices)

**47-0851756**

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

**60069**

(Zip Code)

**847-295-5000**

(Registrant's telephone number, including area code)

**N/A**

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

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (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.

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Class  
Class A Common Stock—\$0.01 par value

Outstanding shares at  
June 30, 2007  
107,973,448

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**HEWITT ASSOCIATES, INC.**

**FORM 10-Q  
FOR THE PERIOD ENDED  
JUNE 30, 2007**

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**Part I. Financial Information****ITEM 1. Financial Statements**

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

	<u>June 30,</u> <u>2007</u>	<u>September 30,</u> <u>2006</u>
	(Unaudited)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 246,950	\$ 138,928
Short-term investments	291,376	310,527
Client receivables and unbilled work in process, less allowances of \$20,680 and \$25,333 at June 30, 2007 and September 30, 2006, respectively	605,136	622,270
Prepaid expenses and other current assets	96,901	72,986
Funds held for clients	119,254	83,026
Deferred income taxes, net	27,989	17,096
Total current assets	<u>1,387,606</u>	<u>1,244,833</u>
Non-Current Assets:		
Deferred contract costs	352,655	289,654
Property and equipment, net	376,218	411,205
Other intangible assets, net	223,114	242,108
Goodwill	576,002	544,922
Other non-current assets, net	29,931	34,956
Total non-current assets	<u>1,557,920</u>	<u>1,522,845</u>
Total Assets	<u>\$2,945,526</u>	<u>\$2,767,678</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 22,437	\$ 31,256
Accrued expenses	187,250	194,736
Funds held for clients	119,254	83,026
Advanced billings to clients	175,987	176,563
Accrued compensation and benefits	284,981	263,143
Short-term debt	29,535	32,246
Current portion of long-term debt and capital lease obligations	39,234	34,742
Total current liabilities	<u>858,678</u>	<u>815,712</u>
Non-Current Liabilities:		
Deferred contract revenues	244,530	193,638
Debt and capital lease obligations, less current portion	234,654	254,852
Other non-current liabilities	142,207	148,794
Deferred income taxes, net	134,028	98,313
Total non-current liabilities	<u>755,419</u>	<u>695,597</u>
Total Liabilities	<u>\$1,614,097</u>	<u>\$1,511,309</u>

**HEWITT ASSOCIATES, INC.**  
**CONSOLIDATED BALANCE SHEETS—Continued**  
(In thousands except for share and per share amounts)

	<u>June 30,</u> <u>2007</u>	<u>September 30,</u> <u>2006</u>
<b>STOCKHOLDERS' EQUITY</b>		
Stockholders' Equity:		
Class A common stock, par value \$0.01 per share, 750,000,000 shares authorized, 126,317,979 and 124,932,189 shares issued, 107,973,448 and 110,822,409 shares outstanding, as of June 30, 2007 and September 30, 2006, respectively	\$ 1,263	\$ 1,249
Additional paid-in capital	1,437,841	1,368,189
Cost of common stock in treasury, 18,344,531 and 14,109,780 shares of Class A common stock as of June 30, 2007 and September 30, 2006, respectively	(528,320)	(401,365)
Retained earnings	303,780	213,224
Accumulated other comprehensive income, net	116,865	75,072
Total stockholders' equity	<u>1,331,429</u>	<u>1,256,369</u>
Total Liabilities and Stockholders' Equity	<u>\$2,945,526</u>	<u>\$ 2,767,678</u>

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

**HEWITT ASSOCIATES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(In thousands except for share and per share amounts)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
<b>Revenues:</b>				
Revenues before reimbursements (net revenues)	\$ 727,982	\$ 698,174	\$ 2,170,816	\$ 2,075,375
Reimbursements	14,330	16,271	51,354	54,181
Total revenues	<u>742,312</u>	<u>714,445</u>	<u>2,222,170</u>	<u>2,129,556</u>
<b>Operating expenses:</b>				
Compensation and related expenses	455,069	480,645	1,424,555	1,337,727
Goodwill and asset impairment	2,996	236,692	6,612	257,229
Reimbursable expenses	14,330	16,271	51,354	54,181
Other operating expenses	149,022	150,187	454,951	476,293
Selling, general and administrative expenses	48,521	38,274	147,020	110,624
Total operating expenses	<u>669,938</u>	<u>922,069</u>	<u>2,084,492</u>	<u>2,236,054</u>
Operating income (loss)	72,374	(207,624)	137,678	(106,498)
Other income, net	2,586	200	8,431	3,359
Income (loss) before income taxes	74,960	(207,424)	146,109	(103,139)
Provision (benefit) for income taxes	27,455	(5,177)	55,553	35,794
Net income (loss)	<u>\$ 47,505</u>	<u>\$ (202,247)</u>	<u>\$ 90,556</u>	<u>\$ (138,933)</u>
<b>Earnings per share:</b>				
Basic	\$ 0.44	(\$1.88)	\$ 0.83	(\$1.30)
Diluted	\$ 0.43	(\$1.88)	\$ 0.82	(\$1.30)
<b>Weighted average shares:</b>				
Basic	107,331,262	107,550,367	108,519,023	107,236,878
Diluted	112,496,542	107,550,367	111,059,224	107,236,878

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

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

	Nine Months Ended	
	June 30,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 90,556	\$(138,933)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization, including amortization of deferred contract revenues and costs	137,101	123,007
Goodwill and asset impairment	6,612	257,229
Stock-based compensation	31,439	49,797
Deferred income taxes	11,933	(14,771)
Gain on contribution of business	—	(7,127)
Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:		
Client receivables and unbilled work in process	34,285	25,566
Prepaid expenses and other current assets	(18,864)	30,425
Deferred contract costs	(106,222)	(128,002)
Other assets	866	(2,039)
Accounts payable	(9,532)	(28,890)
Accrued compensation and benefits	17,077	37,519
Accrued expenses	(3,597)	(7,499)
Advanced billings to clients	(1,263)	28,899
Deferred contract revenues	76,773	64,771
Other long-term liabilities	(9,176)	(1,066)
Net cash provided by operating activities	257,988	288,886
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(170,044)	(284,365)
Proceeds from sales of short-term investments	189,207	80,404
Additions to property and equipment and intangible assets	(62,844)	(77,939)
Cash paid for acquisitions, net of cash received	(2,194)	(1,400)
Net cash used in investing activities	(45,875)	(283,300)
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options	36,475	13,992
Short-term borrowings	76,970	98,444
Repayments of short-term borrowings, capital leases and long-term debt	(97,927)	(117,062)
Purchase of Class A common shares for treasury	(126,955)	(8,516)
Net cash used in financing activities	(111,437)	(13,142)
Effect of exchange rate changes on cash and cash equivalents	7,346	2,888
Net increase (decrease) in cash and cash equivalents	108,022	(4,668)
Cash and cash equivalents, beginning of period	138,928	157,928
Cash and cash equivalents, end of period	<u>\$ 246,950</u>	<u>\$ 153,260</u>
<b>Supplementary disclosure of cash paid during the period:</b>		
Interest paid	\$ 16,923	\$ 16,929
Income taxes paid	\$ 69,057	\$ 24,289

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

**HEWITT ASSOCIATES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(In thousands except for share and per share amounts or as otherwise indicated)**

**1. Description of Business**

Hewitt Associates, Inc., a Delaware corporation, and its subsidiaries (“Hewitt” or the “Company”) provide global human resources benefits, outsourcing and consulting services. Benefits Outsourcing includes administrative services for health and welfare, defined contribution and defined benefit plans. Human Resource Business Process Outsourcing (HR BPO) includes workforce administration, rewards management, recruiting and staffing, payroll processing, performance management, learning and development, talent management, relocation services, time and attendance, accounts payable, procurement expertise and vendor management. Hewitt’s Consulting business 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.

**2. 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, 2007, and for all periods presented. The consolidated financial statements are prepared on the accrual basis of accounting. All adjustments made have been of a normal and recurring nature. Certain information and footnote disclosures normally included in annual 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, 2006, as filed with the Securities and Exchange Commission.

*New Accounting Pronouncements*

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes*. FIN 48 prescribes detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. FIN 48 will be effective for fiscal years beginning after December 15, 2006 (our fiscal year 2008) and the provisions of FIN 48 will be applied to all tax positions under Statement No. 109 upon initial adoption. The cumulative effect of applying the provisions of this interpretation will be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company is currently evaluating the potential impact of FIN 48 on its consolidated financial statements.

In June 2006, the FASB ratified the Emerging Issues Task Force (“EITF”) consensus on EITF Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43* (“EITF 06-2”). EITF 06-2 requires companies to accrue the cost of such compensated absences over the requisite service period. The Company currently accounts for the cost of compensated absences for sabbatical programs when the eligible employee completes the requisite service period. The Company is required to apply the provisions of EITF 06-2 at the beginning of fiscal 2008. EITF 06-02 allows for adoption through retrospective application to all prior periods or through a cumulative effect adjustment to retained earnings if it is impracticable to determine the period-specific effects of the change on prior periods presented. The Company is currently evaluating the financial impact of this guidance and the method of adoption which will be used.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*, (“SAB No. 108”). SAB No. 108 addresses the process and diversity in practice of quantifying financial statement misstatements resulting in the potential build up of improper amounts on the balance sheet. The adoption of SAB No. 108, effective in the first quarter of fiscal 2007, did not have a material impact on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, (“SFAS No. 157”). SFAS No. 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The Statement is effective for fiscal years beginning after November 15, 2007 (our fiscal year 2009) and interim periods within those fiscal years. We do not believe that the adoption of the provisions of SFAS No. 157 will materially impact our financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, (“SFAS No. 158”). SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. The provisions of this Statement are effective for an employer with publicly traded equity securities and are required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006 (our fiscal year 2007). The Company is currently evaluating the potential impact of SFAS No. 158 on its consolidated financial statements.

#### *Reclassifications*

Certain prior year amounts have been recast and reclassified to conform to the current year presentation. The prior year Statement of Cash Flows reflects the inclusion of amortization of deferred contract revenues and costs as well as asset impairments within *Adjustments to reconcile net income (loss) to net cash provided by operating activities*, with the corresponding offset within *Changes in operating assets and liabilities*. In addition, as discussed in Note 12, segment results for 2006 have been recast to conform to the 2007 presentation.

### **3. Severance Accrual**

During the first three quarters of fiscal 2007, the Company implemented several productivity initiatives across the business that resulted in a reduction in workforce. The Company’s severance policy provides the affected employees will receive an amount of severance pay that is based on the employee’s length of service, current employment status and level and benefits elections. For affected employees outside of the United States, the amount of severance is based upon the requirements of local regulations. As of June 30, 2007, the Company has estimated its severance obligations to be \$9.4 million in accordance with Statement of Financial Accounting Standards No. 112 (as Amended), “*Employers’ Accounting for Postemployment Benefits – an amendment of FASB Statements No. 5 and 43.*”

The following table summarizes the activity in the severance accrual for the nine months ended June 30, 2007:

	<u>October 1,</u> <u>2006</u>	<u>Additions</u>	<u>Payments</u>	<u>Adjustments</u>	<u>June 30, 2007</u>
First Quarter reduction in workforce	\$ —	\$15,681	\$(13,122)	\$ (2,184)	\$ 375
Second Quarter reduction in workforce	—	518	(16)	—	502
Third Quarter reduction in workforce	—	9,989	(1,447)	—	8,542
Total	<u>\$ —</u>	<u>\$26,188</u>	<u>\$(14,585)</u>	<u>\$ (2,184)</u>	<u>\$ 9,419</u>

The first quarter charge was reduced by \$1.3 million in the second quarter and \$0.9 million in the third quarter due to higher than expected attrition and redeployment of impacted employees as well as a revision in estimated severance payments to certain employees. The Company anticipates that the remaining accrual will be paid out by the end of the first half of fiscal 2008.

#### **4. Stock-Based Compensation**

During the nine months ended June 30, 2007 and 2006, the Company recorded pre-tax stock-based compensation expense of \$31,439 and \$49,797, respectively, related to expensing of the Company's non-qualified stock options, restricted stock, and restricted stock units. During the third quarter of fiscal 2007, the Company reduced stock-based compensation expense by \$4.5 million related to adjustments to the forfeiture rate used to record stock-based compensation.

Under the Company's Global Stock and Incentive Compensation Plan (the "Plan"), which was adopted in fiscal 2002 and is administered by the Compensation and Leadership Committee of the Company's Board of Directors, employees and directors may receive awards of nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance share units, and cash-based awards; employees can also receive incentive stock options. As of June 30, 2007, only restricted stock, restricted stock units, performance share units and nonqualified stock options have been granted. A total of 25,000,000 shares of Class A common stock have been reserved for issuance under the Plan. As of June 30, 2007, there were 2,673,457 shares available for grant under the Plan.

##### *Restricted Stock and Restricted Stock Units*

On December 1, 2006, the Company granted 2,152,645 shares of restricted stock units at a price of \$25.24, which vest over four years. Also on December 1, 2006, the Company granted 115,000 restricted stock units at a price of \$25.24 which vest on September 30, 2009 upon meeting certain fiscal year 2007 financial performance conditions. During the nine months ended June 30, 2007, an additional 261,007 shares of restricted stock units were granted at a weighted-average price of \$26.97, which vest from one to four years.

##### *Stock Options*

On December 1, 2006, the Company granted 841,650 non-qualified stock options at an exercise price of \$25.24. An additional 80,500 non-qualified stock options were granted during the nine months ended June 30, 2007 at a weighted-average price of \$28.73.

Outstanding nonqualified stock options were granted at an exercise price equal to the fair market value of the Company's shares on the grant date, vest ratably over a four year period and generally expire ten years from the grant date.

A summary of stock option activity for the nine months ended June 30, 2007 is presented below:

	Shares	Weighted-Average Exercise Price
Outstanding at beginning of fiscal year	9,664,292	\$ 23.73
Granted	922,150	\$ 25.54
Exercised	(1,573,059)	\$ 22.51
Forfeited	(141,584)	\$ 24.82
Expired	(389,881)	\$ 25.85
Outstanding at June 30, 2007	<u>8,481,918</u>	\$ 24.04

## 5. Goodwill and Asset Impairment

Goodwill and asset impairment includes charges for the impairment of goodwill, property and equipment, other intangible assets and deferred contract costs. For the three and nine months ended June 30, 2007, the impairment charge totaled \$3.0 million and \$6.6 million, respectively, compared with \$236.7 million and \$257.2 million for the same prior year periods, respectively. For the first two quarters of the fiscal year, impairment charges of \$3.6 million primarily resulted from the write-off of deferred contract costs for various clients. During the third quarter of the fiscal year, the impairment charge related to the write-off of capitalized software, deferred contract set-up costs, and the impairment of a customer relationship.

During the third quarter fiscal 2006 the Company performed an impairment review of goodwill allocated to its HR BPO segment. This review was triggered by lower than expected performance of some of the Company's HR BPO contracts. This review resulted in an impairment charge of \$172 million recorded during the three months ended June 30, 2006. The Company also recorded a \$70 million loss provision for certain existing contracts due to higher than expected costs to be incurred over the life of the contracts, of which \$58 million was recorded to goodwill and asset impairment within the consolidated statements of operations, and a \$7 million impairment of intangible assets primarily related to lower expected utilization of an acquired asset during the three months ended June 30, 2006. Additionally, during the first two quarters of fiscal 2006, the Company recorded impairment charges of \$20.5 million due to a contract termination and a loss provision.

## 6. Goodwill and Other Intangible Assets, Net

Following is a summary of changes in the carrying amount of goodwill for the nine months ended June 30, 2007:

	Benefits Outsourcing	HR BPO	Consulting	Total
Balance at September 30, 2006	\$ 16,738	\$268,949	\$259,235	\$544,922
Addition	—	—	2,206	2,206
Effect of changes in foreign exchange rates	457	10,893	17,524	28,874
Balance at June 30, 2007	<u>\$ 17,195</u>	<u>\$279,842</u>	<u>\$278,965</u>	<u>\$576,002</u>

The addition to goodwill during the nine months ended June 30, 2007 related to the acquisition of two international consulting businesses, finalizing the acquisition of minority interest in an international unit that had previously been a 70% owned subsidiary, and adjusting the goodwill relating to an acquisition within the Consulting segment which occurred in the fourth quarter of fiscal 2006.

Intangible assets with definite useful lives are amortized over their estimated lives and are tested for impairment whenever indicators of impairment arise. The following is a summary of intangible assets at June 30, 2007 and September 30, 2006:

	June 30, 2007			September 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	Trademarks and tradenames	\$ 15,723	\$ 14,273	\$ 1,450	\$ 14,870	\$ 11,647
Core technology	45,391	12,989	32,402	45,309	9,273	36,036
Customer relationships	254,173	64,911	189,262	245,780	42,931	202,849
Total	<u>\$315,287</u>	<u>\$ 92,173</u>	<u>\$223,114</u>	<u>\$305,959</u>	<u>\$ 63,851</u>	<u>\$242,108</u>

The increase in the gross carrying amounts of trademarks and tradenames, core technology and customer relationships is due to the effects of foreign currency exchange rate changes.

Amortization expense related to definite useful life assets for the three and nine months ended June 30, 2007 and June 30, 2006 is as follows:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Trademarks and tradenames	\$ 480	\$ 682	\$ 1,845	\$ 2,035
Core technology	1,293	1,208	3,680	3,614
Customer relationships	6,797	4,035	20,460	12,074
Total	<u>\$ 8,570</u>	<u>\$ 5,925</u>	<u>\$25,985</u>	<u>\$17,723</u>

## 7. Pension and Postretirement Benefit Plans

The Company has defined benefit pension plans to provide benefits to eligible employees in the United Kingdom, Switzerland, Netherlands, Germany, India, France, Ireland and Mexico. 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 U.S. and Canadian 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 are contributory and contributions are reviewed annually and adjusted periodically.

The components of net periodic pension benefit costs for the three and nine months ended June 30, 2007 and June 30, 2006 include:

Components of Net Periodic Benefit Costs	Pension Benefits			
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Service cost	\$ 3,108	\$ 2,615	\$ 9,225	\$ 7,534
Interest cost	2,323	1,891	6,870	5,533
Expected return on plan assets	(2,284)	(1,695)	(6,778)	(4,970)
Loss recognized in the year	—	5	—	14
Amortization of:				
Unrecognized prior service credit	(11)	—	(33)	—
Unrecognized loss	58	144	172	420
Net periodic benefit cost	<u>\$ 3,194</u>	<u>\$ 2,960</u>	<u>\$ 9,456</u>	<u>\$ 8,531</u>

During the nine months ended June 30, 2007, \$14,349 in contributions were made by the Company to the pension plans.

The components of net periodic health benefit costs for the three and nine months ended June 30, 2007 and June 30, 2006 include:

Components of Net Periodic Benefit Costs	Health Benefits			
	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Service cost	\$ 3	\$ 99	\$ 9	\$ 297
Interest cost	200	125	600	375
Amortization of:				
Unrecognized prior service (credit)/cost	—	(67)	1	(201)
Unrecognized loss	51	114	152	342
Net periodic benefit cost	<u>\$ 254</u>	<u>\$ 271</u>	<u>\$ 762</u>	<u>\$ 813</u>

## 8. Commitments and Contingencies

The Company is involved in disputes arising in the ordinary course of its business relating to Outsourcing or Consulting agreements, professional liability claims, vendors or service providers or employment claims. We are also routinely audited and subject to inquiries by governmental and regulatory agencies. The Company evaluates estimated losses under SFAS 5, *Accounting for Contingencies*. Management considers such factors as the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss and records a provision with respect to a claim, suit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can reasonably be estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, the minimum amount in the range is accrued. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded.

In the second quarter, the Company recorded a \$4 million pre-tax charge, within Benefits Outsourcing, associated with the resolution of a legal dispute with a vendor. An additional \$0.5 million was recorded in the third quarter for this matter. The final payment of \$4.5 million was made in the third quarter.

The Company does not believe that any unresolved disputes will have a material adverse effect on its financial condition or results of operation. However, litigation in general and the outcome of any matter in particular cannot be predicted with certainty. An unfavorable resolution of one or more pending matters could have a material adverse impact on the Company's results of operations for one or more reporting periods.

The Company is in active discussions with a number of HR BPO clients to renegotiate the terms of their contracts. These renegotiations could result in changes to the scope or duration of services, service delivery methods or pricing or could result in contract termination. Through the third quarter, the Company has recorded \$13.9 million related to an ongoing dispute with one of these clients. As negotiations progress with this client and others we may be required to recognize additional charges, which could have a material adverse impact on the Company's results of operations for one or more reporting periods.

## 9. Other Income, Net

Other income, net consists of the following components:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Interest expense	\$(3,863)	\$(5,424)	\$(14,508)	\$(16,665)
Interest income	7,131	4,974	21,906	10,837
Gain on contribution of business	—	—	—	7,127
Other	(682)	650	1,033	2,060
Other income, net	<u>\$ 2,586</u>	<u>\$ 200</u>	<u>\$ 8,431</u>	<u>\$ 3,359</u>

During the nine months ended June 30, 2006, the Company recognized a gain of \$7,127 in connection with the contribution of its Retirement and Financial Management business in Germany in exchange for an increased investment in a German actuarial business (“investee”). The Company currently has a 28% non-controlling interest in the investee and accounts for its investment under the equity method of accounting.

## 10. Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share are calculated as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
<b>Earnings (loss) per share – basic:</b>				
Net income (loss) as reported	\$ 47,505	\$ (202,247)	\$ 90,556	\$ (138,933)
Weighted-average number of shares of common stock for basic	107,331,262	107,550,367	108,519,023	107,236,878
Earnings (loss) per share – basic	<u>\$ 0.44</u>	<u>\$ (1.88)</u>	<u>\$ 0.83</u>	<u>\$ (1.30)</u>
<b>Earnings (loss) per share – diluted:</b>				
Net income (loss) as reported	\$ 47,505	\$ (202,247)	\$ 90,556	\$ (138,933)
Plus: Income impact of assumed conversions:				
Interest on convertible debt securities (net of tax)	587	—	—	—
Net income (loss) for per share calculation	<u>\$ 48,092</u>	<u>\$ (202,247)</u>	<u>\$ 90,556</u>	<u>\$ (138,933)</u>
Weighted-average number of shares of common stock for basic	107,331,262	107,550,367	108,519,023	107,236,878
Incremental effect of dilutive common stock equivalents:				
Unvested restricted stock awards	1,458,291	—	1,511,458	—
Unexercised in-the-money stock options	1,836,241	—	1,028,743	—
Convertible debt	<u>1,870,748</u>	<u>—</u>	<u>—</u>	<u>—</u>
Weighted-average number of shares of common stock for diluted	<u>112,496,542</u>	<u>107,550,367</u>	<u>111,059,224</u>	<u>107,236,878</u>
Earnings (loss) per share – diluted	<u>\$ 0.43</u>	<u>\$ (1.88)</u>	<u>\$ 0.82</u>	<u>\$ (1.30)</u>

Debt securities convertible into 1,870,748 shares of Class A common stock were outstanding in the three and nine months ended June 30, 2007 and 2006, but the weighted-average convertible shares were not included in the computation of diluted earnings per share for the nine months ended June 30, 2007 and the three and nine months ended June 30, 2006 because the effect of including

the convertible debt securities would be antidilutive. Warrants to sell 200,000 shares of Class A common stock, which the Company assumed in the Exult merger, were outstanding in the three and nine months ended June 30, 2007 and 2006, but the warrants were not included in the computation of diluted earnings per share because the exercise price of the warrants was greater than the average market price of the Class A common stock. Of the outstanding stock options as of June 30, 2007 and 2006, 63,169 and 9,625,036 weighted average shares for each quarter and 1,183,522 and 9,925,378 weighted average shares for each nine month period, respectively, were not included in the computation of diluted earnings per share because the exercise price of the options was greater than the average market price of the Class A common stock.

## 11. Other Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Net income (loss)	\$47,505	\$(202,247)	\$ 90,556	\$(138,933)
Other comprehensive income (loss):				
Foreign currency translation adjustments	19,233	(873)	41,785	(3,830)
Unrealized gains (losses) on investments	(9)	22	8	107
Total comprehensive income (loss)	<u>\$66,729</u>	<u>\$(203,098)</u>	<u>\$132,349</u>	<u>\$(142,656)</u>

## 12. Segment Results

During the second quarter of fiscal 2007, the Company conducted a detailed review of the Outsourcing business. Driving this review was the fact that HR BPO became an increasingly important focus for management and a key line of business. Further, the Company realigned organizational resources in a way that focuses more specific resources to HR BPO and Benefits Outsourcing. Alignment of cost drivers coupled with cost analysis activities allowed management to identify and quantify costs and related consumption drivers specific to HR BPO and Benefits. Following this review, the Company determined that Outsourcing be broken into two reportable segments, Benefits Outsourcing and HR BPO.

In addition to the realignment of the Outsourcing business, the Company completed a detailed review of shared service costs to determine which of these costs should be distributed to the business segments as well as how these shared service costs should be distributed to the business segments. The review resulted in changes to the way previously unallocated costs were distributed to the business segments and the distribution of previously unallocated costs to the business segments. Improved data and analytical capabilities have provided us insight into costs that were previously not attributable to specific business segment activity. This includes expenses related to business leadership that could be attributed to specific reportable segments as well as other finance, general counsel, human resources, corporate development and related costs.

The Company also revised its allocation methodologies associated with shared service costs. The new methodologies assign costs based on usage and consumption factors such as computer usage and square footage occupied rather than previously used factors such as headcount. The new methodologies are intended to improve ownership and management of overhead spending. The effect of these changes impacted the costs reported within each segment and reduced the level of unallocated shared service costs.

As a result of the segregation of Outsourcing, the Company now has three reportable segments: Benefits Outsourcing, HR BPO and Consulting.

- Benefits Outsourcing—Hewitt offers benefits administrative services for health and welfare (e.g. medical) plans, defined contribution (e.g. 401(k)) plans and defined benefit (e.g. pension) plans. Through these services, companies are able to control benefit costs while meeting employees' expectations for enhanced benefit services.

- HR BPO—Hewitt offers services, including workforce administration, rewards management, recruiting and staffing, payroll processing, performance management, learning and development, talent management, relocation services, time and attendance, accounts payable, procurement expertise and vendor management. Through these services, companies are able to reduce costs and focus on their core business while gaining expertise and access to current and innovative technology and process through the economies of scale created by using repeatable processes and standardized technologies.
- 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.

The Company 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 operating segments. These shared services include information technology services, client support services, human resources, management, corporate relations, finance, general counsel, real estate management, supplier management and other supporting services. Many of these costs, such as information technology services, human resources, real estate management, and other support services, are assigned to the business segments based on usage and consumption factors. Certain unallocated costs, within finance, general counsel, management and corporate relations, are not allocated to the business segments and remain in unallocated shared service costs.

The table below summarizes the Company's reportable segment results. Results for the prior year have been recast to be comparable to the current year presentation.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
<b>Benefits Outsourcing</b>				
Segment revenues before reimbursements	\$358,678	\$ 360,438	\$1,106,062	\$1,092,390
Segment income	95,461	76,208	244,450	237,226
<b>HR BPO</b>				
Segment revenues before reimbursements	\$138,474	\$ 128,829	\$ 403,103	\$ 386,294
Segment loss	(37,820)	(293,509)	(141,710)	(379,369)
<b>Consulting</b>				
Segment revenues before reimbursements	\$240,875	\$ 218,777	\$ 690,133	\$ 622,528
Segment income	40,882	30,247	102,025	108,560
<b>Total Company</b>				
Segment revenues before reimbursements	\$738,027	\$ 708,044	\$2,199,298	\$2,101,212
Intersegment revenues	(10,045)	(9,870)	(28,482)	(25,837)
Revenues before reimbursements (net revenues)	727,982	698,174	2,170,816	2,075,375
Reimbursements	14,330	16,271	51,354	54,181
Total revenues	<u>\$742,312</u>	<u>\$ 714,445</u>	<u>\$2,222,170</u>	<u>\$2,129,556</u>
Segment income (loss)	\$ 98,523	\$(187,054)	\$ 204,765	\$ (33,583)
Charges not recorded at the segment level:				
Initial public offering restricted stock awards	—	1,822	—	8,905
Unallocated shared service costs	26,149	18,748	67,087	64,010
Operating income (loss)	<u>\$ 72,374</u>	<u>\$(207,624)</u>	<u>\$ 137,678</u>	<u>\$ (106,498)</u>

### **13. Subsequent Event**

On August 8, 2007, the Company commenced a modified “Dutch Auction” tender offer to purchase up to 15.6 million shares, or 14% of its outstanding Class A common stock at a purchase price between \$28.75 and \$32.00 per share. The tender offer is set to expire on September 5, 2007. The Company intends to use its existing liquidity to fund the tender offer.

## **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. Some of the risks and uncertainties are described below and in the "Note Regarding Forward-Looking Statements" which appears later in this section and in our Annual Report on Form 10-K, in Item 1A under the heading "Risk Factors."*

*We use the terms "Hewitt", "the Company", "we", "us", and "our" to refer to the business of Hewitt Associates, Inc. and its subsidiaries. All references to years, unless otherwise noted, refer to our fiscal years, which end on September 30. For example, a reference to "2007" or "fiscal 2007" means the twelve-month period that ends September 30, 2007. References to and adjustments for "foreign currency translation" are made within our discussion of results so that the financial results can be viewed without the impact of fluctuating foreign currency exchange rates used in reporting results in one currency (U.S. Dollar) and helps facilitate a comparative view of business results. Financial results described within this section, except for share and per share information, are stated in thousands of U.S. Dollars unless otherwise noted. Certain prior-period amounts have been reclassified to conform to the current-year presentation.*

During the third quarter, the Company continued to focus on our four key strategic priorities that have been identified as fundamental to our future success and ongoing health of our business. Following is a brief discussion of these four priorities and the progress made during the quarter against these priorities.

- *Keep Clients First.* The Company's intense focus on the needs of our clients has earned us the strong reputation that we enjoy in the marketplace, and will be key to our future growth and success. This includes understanding what creates the most value for our clients and also meeting the expectations of our clients. Reinvesting in quality by re-engineering our processes, improving our product service delivery and increasing our resourcing levels in some key areas will be underlying themes in our go-forward strategies. In addition, our recently created new Client Market Leadership organization is dedicated to ensuring that we remain focused on driving the right solutions for our clients across the full array of our service offerings.
- *Create a Rewarding Work Experience.* Engaged employees are critical to our success. We are focused on revitalizing our culture and creating a rewarding work environment for our associates around the world. During the current quarter the Company appointed a new Senior Vice President of Human Resources, who will partner with our other senior leaders to create a truly high-performance organization. In a continuing effort to improve engagement and retention of our people, a survey was recently distributed to all associates. The findings of this survey will allow Company leaders to focus on key areas to revitalize our culture and create a rewarding work environment.
- *Grow With Intention.* The Company continues to pursue new growth strategies, leveraging our Benefits Outsourcing and Consulting businesses. Additionally, increased discipline is being exercised in allocating the use of the Company's capital when evaluating these growth opportunities. The Company is evaluating opportunities to grow both organically and through acquisitions by evolving and expanding our offers.
- *Get Lean.* During the current quarter the Company maintained an aggressive focus on its cost structure and implemented several productivity initiatives across the business. In conjunction with an ongoing review of our real estate portfolio, the Company also announced in the current quarter its intention to consolidate facilities, and in some cases, exit certain properties. These real estate actions are expected to result in a pretax charge of between \$30 million and \$45 million over the next two or three quarters, beginning in the fourth quarter of fiscal 2007. These real estate actions are an important component of a broader, comprehensive company-wide program to improve efficiency and productivity.

We have spent a considerable amount of time during this quarter focusing the organization on each of these four strategic priorities and have made considerable progress across each of them. The third quarter financial results have been impacted as a result of these priorities as discussed further below.

Third quarter direct revenue, excluding third party supplier revenues and the favorable effects of foreign currency translation and acquisitions increased 3.4% as compared to the prior-year quarter and was driven by revenue growth in the Human Resource Business Process Outsourcing (HR BPO) and Consulting segments, offset by a decrease in the Benefits Outsourcing segment. Revenue strength was attributed to HR BPO growth from existing clients including an increase in project work and an increase in the number of clients who went live with contract services over the last twelve months. An increased demand in Consulting for Retirement and Financial Management and Talent and Organizational Consulting also contributed to the revenue growth, partially offset by a decrease in Benefits Outsourcing revenue due to the impact of lost clients and longer implementation cycles required for some of the Company's large, complex clients.

Third quarter operating income increased to \$72.4 million from a loss of \$207.6 million in the prior-year period. The prior year results reflected non-cash charges of \$172 million for goodwill impairment, \$70 million for anticipated losses on certain HR BPO contracts and \$7 million for impairment of intangible assets. In addition, during the three months ended June 30, 2007 the Company recorded \$12.2 million of lower expense relating to loss reserves and \$12.1 million of lower contractor expense, as compared to the same prior year period. During the third quarter the Company continued to assess its strategy for the HR BPO business and progressed in its discussions with a number of HR BPO clients to renegotiate the terms of their contracts. These renegotiations could result in changes to the scope or duration of services, service delivery methods or pricing or could result in contract termination. Year to date, the Company has recorded a \$13.9 million charge related to an ongoing dispute with one of these clients. As negotiations progress and the strategy for HR BPO is further defined, we may be required to recognize additional charges, which could have a material adverse impact on the Company's results of operations for one or more reporting periods.

Finally, as discussed in the second quarter, we made changes to our reportable segments and the costs that are delivered to them as we continue to strive for increased transparency into our results. The changes include:

- The realignment of cost structures and allocation of costs. Improved data and analytical capabilities have provided us with increased visibility into shared service costs that were previously not attributable to specific business segment activity. As a result, we have been able to quantify and distribute previously unallocated shared service costs to the appropriate business segment. These costs include charges associated with management, finance, general counsel and corporate relations as well as insurance and other taxes. Further, we are now allocating costs based on usage and consumption factors. The realignment has impacted the costs reported within each segment and the level of unallocated shared service costs. These enhancements will provide greater visibility to controllable costs further enhancing our ability to analyze the profitability of each business segment.
- Reporting of Benefits Outsourcing and HR BPO. The HR BPO business has become an increasingly important focus for management. Management has realigned organizational resources in a way that focuses specific resources to the HR BPO and Benefits Outsourcing businesses. In addition, improved data and analytical tools have enhanced our ability to identify consumption drivers between each distinct business segment and provide additional insight into business profitability. As a result of these changes, effective the second quarter of this fiscal year, we began reporting Outsourcing as two business segments: Benefits Outsourcing and HR BPO.

The following table sets forth our historical results of operations.

**Three Months Ended June 30, 2007 and 2006**  
**Unaudited**

(\$ in thousands)	Three Months Ended June 30,		% Change	% of Net Revenues	
	2007	2006		2007	2006
<b>Revenues:</b>					
Net revenues <sup>(1)</sup>	\$727,982	\$ 698,174	4.3%		
Reimbursements	14,330	16,271	(11.9)		
Total revenues	<u>742,312</u>	<u>714,445</u>	3.9		
<b>Operating expenses:</b>					
Compensation and related expenses	455,069	480,645	(5.3)	62.5%	68.8%
Goodwill and asset impairment	2,996	236,692	(98.7)	0.4	33.9
Reimbursable expenses	14,330	16,271	(11.9)	2.0	2.3
Other operating expenses <sup>(1)</sup>	149,022	150,187	(0.8)	20.5	21.5
Selling, general and administrative expenses	48,521	38,274	26.8	6.7	5.5
Total operating expenses	<u>669,938</u>	<u>922,069</u>	(27.3)	<u>92.1</u>	<u>132.0</u>
Operating income (loss)	72,374	(207,624)		9.9	(29.7)
Other income (expense), net	2,586	200		0.4	—
Income (loss) before income taxes	74,960	(207,424)		10.3	(29.7)
Provision (benefit) for income taxes	27,455	(5,177)		3.8	(0.7)
Net income (loss)	<u>\$ 47,505</u>	<u>\$(202,247)</u>		<u>6.5%</u>	<u>(29.0)%</u>

(1) Net revenues include \$14,275 and \$21,279 of third party supplier revenues for the three months ended June 30, 2007 and 2006, respectively. The third party supplier arrangements are generally marginally profitable. The related third party supplier expenses are included in other operating expenses.

*Net Revenues*

The increase in net revenues was driven by revenue growth in the HR BPO and Consulting segments, offset by a decrease in the Benefits Outsourcing segment. Revenue strength was attributed to HR BPO growth from existing clients including an increase in project work and an increase in the number of clients who went live with contract services over the last twelve months. Consulting revenue strength was driven by demand for Retirement and Financial Management and Talent and Organizational Consulting services. Net revenues, excluding third party supplier revenues and the favorable effects of foreign currency translation and acquisitions of approximately \$11.0 million and \$2.7 million, respectively, increased 3.4% as compared to the prior-year quarter. Segment results are discussed in greater detail later in this section.

*Compensation and Related Expenses*

Compensation and related expenses include all personnel, supplemental staffing and related expenses. The decrease in current quarter expense over the prior year is primarily due to \$12.2 million of lower expense relating to loss reserves, \$12.1 million of lower contractor expense due to the Company's continued efforts to right-size the organization, \$4.2 million of lower performance based incentives, and \$5.5 million of lower stock based compensation primarily related to adjustments to the forfeiture rate. Offsetting these decreases is higher termination pay expense of \$5.7 million due to the Company's continued effort to right-size the organization as well as an increase in salaries and wages of \$3.1 million.

### *Goodwill and Asset Impairment*

Goodwill and asset impairment includes charges for the impairment of goodwill, property and equipment, other intangible assets and deferred contract costs. For the three months ended June 30, 2007, the impairment charge totaled \$3.0 million, related to the write-off of capitalized software, deferred contract set-up costs, and the impairment of a customer relationship compared with \$236.7 million for the same prior year period.

During the third quarter of fiscal 2006 the Company performed an impairment review of goodwill allocated to its HR BPO segment. This review was triggered by lower than expected performance of some of the Company's HR BPO contracts. This review resulted in an impairment charge of \$172 million recorded during the three months ended June 30, 2006. The Company also recorded a \$70 million loss provision for certain existing contracts due to higher than expected costs to be incurred over the life of the contracts, of which \$58 million was recorded to goodwill and asset impairment within the consolidated statements of operations, and a \$7 million impairment of intangible assets primarily related to lower expected utilization of an acquired asset.

### *Other Operating Expenses*

Other operating expenses include technology, occupancy and non-compensation related direct client service costs, including third party supplier costs. The decrease in other operating expenses is due to a reduction in third party supplier costs of \$7.0 million partially offset by higher client service delivery costs, net of deferrals.

### *Selling, General and Administrative Expenses*

Selling, general and administrative ("SG&A") expenses primarily include promotion and marketing costs, corporate professional services, amortization of definite-lived intangible assets, provisions for doubtful accounts, legal and contract restructuring charges and other general office expenses. The increase in SG&A expense is primarily due to consulting charges related to the Company's ongoing strategic initiatives. Also contributing to the increase is higher amortization of intangible assets resulting from the shortening of the remaining useful life of a customer relationship.

### *Other Income, Net*

Other income, net includes interest expense, interest income, equity earnings on unconsolidated investments and other non-operating gains or losses. Other income increased \$2.4 million due to higher interest income derived from significantly higher average investment balances and rising interest rates yielding higher returns. The increase was partially offset by realized foreign exchange losses.

### *Provision for Income Taxes*

The Company's consolidated effective income tax rate is 36.6% for the three months ended June 30, 2007, as compared to (2.5)% for the comparable prior-year period. The lower effective rate for fiscal 2006 in comparison to fiscal 2007 is due to the impact of discrete items in the prior-year quarter including a non-deductible goodwill impairment charge, the reversal of certain tax contingencies upon the closing of tax audits for certain tax periods as well as establishing a valuation allowance against the deferred tax assets related to certain foreign entities. The impact of these fiscal 2006 discrete items on the prior year's effective tax rate was to reduce the effective income tax rate by a net of 36.5%. The Company reviews its expected annual effective income tax rates and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income; changes to the valuation allowance for net deferred tax assets; changes to actual or forecasted permanent book to tax differences; impacts from future tax settlements with state, federal or foreign tax authorities; and impacts from tax law changes. In addition, the Company identifies items which are not normal and recurring in nature and treats these as discrete events. The tax effect of discrete items is booked entirely in the quarter in which the discrete event occurs. Due to the volatility of these factors, the Company's consolidated effective income tax rate can change significantly on a quarterly basis.

**Nine Months Ended June 30, 2007 and 2006**  
**Unaudited**

(\$ in thousands)	Nine Months Ended June 30,		% Change	% of Net Revenues	
	2007	2006		2007	2006
<b>Revenues:</b>					
Net revenues <sup>(1)</sup>	\$2,170,816	\$2,075,375	4.6%		
Reimbursements	51,354	54,181	(5.2)		
Total revenues	<u>2,222,170</u>	<u>2,129,556</u>	4.3		
<b>Operating expenses:</b>					
Compensation and related expenses	1,424,555	1,337,727	6.5	65.6%	64.5%
Goodwill and asset impairment	6,612	257,229	(97.4)	0.3	12.4
Reimbursable expenses	51,354	54,181	(5.2)	2.4	2.6
Other operating expenses <sup>(1)</sup>	454,951	476,293	(4.5)	21.0	22.9
Selling, general and administrative expenses	147,020	110,624	32.9	6.8	5.3
Total operating expenses	<u>2,084,492</u>	<u>2,236,054</u>	(6.8)	<u>96.1</u>	<u>107.7</u>
Operating income (loss)	137,678	(106,498)		6.3	(5.1)
Other income, net	8,431	3,359		0.4	0.1
Income (loss) before income taxes	146,109	(103,139)		6.7	(5.0)
Provision for income taxes	55,553	35,794		2.5	1.7
Net income (loss)	<u>\$ 90,556</u>	<u>\$ (138,933)</u>		<u>4.2%</u>	<u>(6.7)%</u>

(1) Net revenues include \$51,857 and \$90,704 of third party supplier revenues for the nine months ended June 30, 2007 and 2006, respectively. The third party supplier arrangements are generally marginally profitable. The related third party supplier expenses are included in other operating expenses.

*Net Revenues*

The increase in net revenues was driven by revenue growth in the Consulting and HR BPO segments. Revenue strength was attributed to an increased demand in Consulting for Retirement and Financial Management and Talent and Organizational Consulting services. HR BPO also contributed to the revenue growth due to an increase in the number of clients who went live with contract services over the last twelve months and growth in revenue from existing clients including an increase in project work. Net revenues, excluding third party supplier revenues and the favorable effects of foreign currency translation and acquisitions of approximately \$35.6 million and \$7.4 million, respectively, increased 4.5% as compared to the prior-year quarter. Segment results are discussed in greater detail later in this section.

*Compensation and Related Expenses*

The increase in expense over the prior year includes \$64.3 million of higher salaries and wages and \$42.5 million of increased performance based compensation partially offset by \$17.4 million of lower stock based compensation related to lower IPO restricted stock award expense and adjustments to the forfeiture rate. The increase in salaries and wages is primarily attributable to increases in compensation and a reduction in the amount of salaries and wages which are capitalized due to fewer clients being in the implementation stage. The increase in performance based compensation reflects both an impact due to timing of expense recognition as well as an overall increase in expected payout compared to the prior year.

### *Goodwill and Asset Impairment*

For the nine months ended June 30, 2007, the impairment charge totaled \$6.6 million compared with \$257.2 million for the comparable prior year period. For the first two quarters of the fiscal year, impairment charges of \$3.6 million primarily resulted from the write-off of deferred contract costs for various clients. During the third quarter of the fiscal year, the impairment charge related to the write-off of capitalized software, deferred contract set-up costs, and the impairment of a customer relationship.

During the third quarter of fiscal 2006 the Company performed an impairment review of goodwill allocated to its HR BPO segment. This review was triggered by lower than expected performance of some of the Company's HR BPO contracts. This review resulted in an impairment charge of \$172 million recorded during the three months ended June 30, 2006. The Company also recorded a \$70 million loss provision for certain existing contracts due to higher than expected costs to be incurred over the life of the contracts, of which \$58 million was recorded to goodwill and asset impairment within the consolidated statements of operations, and a \$7 million impairment of intangible assets primarily related to lower expected utilization of an acquired asset during the three months ended June 30, 2006. Additionally, during the first two quarters of fiscal 2006, the Company recorded impairment charges of \$20.5 million due to a contract termination and a loss provision.

### *Other Operating Expenses*

The decrease in other operating expense is due to a reduction in third party supplier costs of \$38.9 million, partially offset by higher client service delivery charges, net of deferrals, primarily related to the increased percentage of HR BPO clients who are live with ongoing services.

### *Selling, General and Administrative Expenses*

The increase in SG&A expense is primarily due to a \$13.9 million charge associated with the anticipated restructuring of one of our HR BPO contracts and a \$4.5 million charge, recorded within Benefits Outsourcing, associated with the resolution of a legal dispute with a vendor. Also contributing to the increase is higher amortization of intangible assets resulting from the shortening of the remaining useful life of a customer relationship.

### *Other Income, Net*

Other income increased by \$5.1 million over the prior year due to higher interest income derived from significantly higher average investment balances and a rising interest rates yielding higher returns. In addition, in fiscal 2006 we recognized a \$7 million gain in connection with a contribution of our German Retirement and Financial Management business in exchange for an increased investment in a German actuarial business.

### *Provision for Income Taxes*

The Company's consolidated effective income tax rate is 38.0% for the nine months ended June 30, 2007, as compared to 34.7% for the comparable prior-year period. The lower effective rate for fiscal 2006 in comparison to fiscal 2007 is due to the impact of discrete items including a non-deductible goodwill impairment charge, the reversal of certain tax contingencies upon the closing of tax audits for certain tax periods as well as establishing a valuation allowance against the deferred tax assets related to certain foreign entities. The Company reviews its expected annual effective income tax rates and makes changes on a quarterly basis as necessary based on certain factors such as changes in forecasted annual operating income; changes to the valuation allowance for net deferred tax assets; changes to actual or forecasted permanent book to tax differences; impacts from future tax settlements with state, federal or foreign tax authorities; and impacts from tax law changes. In addition, the Company identifies items which are not normal and recurring in nature and treats these as discrete events. The tax effect of discrete items is booked entirely in the quarter in which the discrete event occurs. Due to the volatility of these factors, the Company's consolidated effective income tax rate can change significantly on a quarterly basis.

## Segment Results

Operating income before unallocated shared service costs and initial public offering restricted stock awards is referred to as “segment income” throughout the discussion.

## Reconciliation of Segment Results to Total Company Results

### Three Months Ended June 30, 2007 and 2006 Unaudited

Prior year results have been recast to reflect new allocation methodologies and distribution of additional shared service costs adopted in the second quarter of fiscal year 2007. In addition, beginning with the second quarter, the Company is reporting three segments: Benefits Outsourcing, HR BPO and Consulting.

(\$ in thousands)	Three Months Ended June 30,		% Change
	2007	2006	
<b>Benefits Outsourcing</b>			
Segment revenues before reimbursements	\$358,678	\$ 360,438	(0.5)%
Segment income	95,461	76,208	25.3%
Segment income as a percentage of segment revenues	26.6%	21.1%	
<b>HR BPO</b>			
Segment revenues before reimbursements <sup>(1)</sup>	\$138,474	\$ 128,829	7.5%
Segment loss	(37,820)	(293,509)	87.1%
Segment loss as a percentage of segment revenues	(27.3)%	(227.8)%	
<b>Consulting</b>			
Segment revenues before reimbursements	\$240,875	\$ 218,777	10.1%
Segment income	40,882	30,247	35.2%
Segment income as a percentage of segment revenues	17.0%	13.8%	
<b>Total Company</b>			
Segment revenues before reimbursements <sup>(1)</sup>	\$738,027	\$ 708,044	4.2%
Intersegment revenues	(10,045)	(9,870)	1.8%
Revenues before reimbursements (net revenues)	727,982	698,174	4.3%
Reimbursements	14,330	16,271	(11.9)%
Total revenues	<u>\$742,312</u>	<u>\$ 714,445</u>	3.9%
Segment income (loss)	\$ 98,523	\$(187,054)	152.7%
Charges not recorded at the segment level:			
Initial public offering restricted stock awards	—	1,822	(100.0)%
Unallocated shared service costs	26,149	18,748	39.5%
Operating income (loss)	<u>\$ 72,374</u>	<u>\$(207,624)</u>	134.9%

(1) HR BPO net revenues include \$14,275 and \$21,279 of third party supplier revenues for the three months ended June 30, 2007 and 2006, respectively. The third party supplier arrangements are generally marginally profitable. The related third party supplier expenses are included in other operating expenses.

### **Benefits Outsourcing**

Benefits Outsourcing net revenue, adjusting for the impact of foreign currency translation of \$1.6 million, decreased 1.1% during the three months ended June 30, 2007 as compared to the prior-year quarter. An increase in project work was more than offset by the impact of lost clients and longer implementation cycles required for some of the Company's large, complex clients.

Benefits operating income increased 25.3% as compared to the prior-year quarter due to efficiencies realized from global sourcing and other cost management initiatives.

### **Human Resources Business Process Outsourcing**

HR BPO net revenue, excluding third party revenue and adjusting for the impact of foreign currency translation of \$1.8 million, increased 14.2% during the three months ended June 30, 2007 as compared to the prior-year quarter. The increase is primarily related to growth from existing clients, including an increase in project revenue, as well as an increase in the number of clients who went live with contract services over the last twelve months.

HR BPO operating loss decreased 87.1% as compared to the prior-year quarter. The prior year results reflected charges of \$172 million for goodwill impairment, \$70 million for anticipated losses on certain HR BPO contracts and \$7 million for impairment of intangible assets. Excluding the charges, the loss improved due to revenue growth and lower compensation expense driven by cost management initiatives and stabilization of existing clients, partially offset by increased severance charges from restructuring activities, higher operating expenses, and higher intangible amortization expense resulting from the non-renewal of a client contract.

### **Consulting**

Consulting net revenues, adjusting for the favorable effects of foreign currency translation of \$7.6 million and acquisitions of approximately \$2.7 million, increased 5.4%. The growth was due to increased demand for Retirement and Financial Management consulting, in particular, driven by the new funding legislation in the U.S. and upcoming pension accounting changes. Also contributing to the revenue growth is increased demand for Talent and Organizational Consulting services.

Segment income increased 35.2% as compared to the same prior-year period resulting from revenue growth and lower expense related to performance based incentives and stock based compensation expense being partially offset by higher compensation expense driven by increased focus on retaining talent.

### **Unallocated Shared Service Costs**

Unallocated shared service costs are global expenses that are incurred on behalf of the entire Company and are not specific to a business segment. These costs include finance, general counsel, management and corporate relations and other related costs. Prior to the second quarter, unallocated shared service costs also included various costs specific to individual business segments. During the second quarter, the Company performed a detailed review of shared service costs and how they are consumed. The review identified shared service costs that could be directly attributed to a business segment either directly, by embedding the cost in the business segment, or through assignment of costs based upon usage. Prior period results were adjusted to reflect this change.

Unallocated cost increased 39.5% primarily due to increased professional services related to the Company's ongoing strategic initiatives as well as increased outside legal costs.

**Nine Months Ended June 30, 2007 and 2006**  
**Unaudited**

Prior year and first quarter results have been recast to reflect the new allocation methodologies and distribution of additional shared service costs adopted in the second quarter of fiscal year 2007. In addition, beginning with the second quarter, the Company is reporting three segments: Benefits Outsourcing, HR BPO and Consulting.

(\$ in thousands)	Nine Months Ended June 30,		% Change
	2007	2006	
<b>Benefits Outsourcing</b>			
Segment revenues before reimbursements	\$1,106,062	\$1,092,390	1.3%
Segment income	244,450	237,226	3.0%
Segment income as a percentage of segment revenues	22.1%	21.7%	
<b>HR BPO</b>			
Segment revenues before reimbursements <sup>(1)</sup>	\$ 403,103	\$ 386,294	4.4%
Segment loss	(141,710)	(379,369)	62.6%
Segment loss as a percentage of segment revenues	(35.2)%	(98.2)%	
<b>Consulting</b>			
Segment revenues before reimbursements	\$ 690,133	\$ 622,528	10.9%
Segment income	102,025	108,560	(6.0)%
Segment income as a percentage of segment revenues	14.8%	17.4%	
<b>Total Company</b>			
Segment revenues before reimbursements <sup>(1)</sup>	\$2,199,298	\$2,101,212	4.7%
Intersegment revenues	(28,482)	(25,837)	10.2%
Revenues before reimbursements (net revenues)	2,170,816	2,075,375	4.6%
Reimbursements	51,354	54,181	(5.2)%
Total revenues	<u>\$2,222,170</u>	<u>\$2,129,556</u>	4.3%
Segment income (loss)	\$ 204,765	\$ (33,583)	
Charges not recorded at the segment level:			
Initial public offering restricted stock awards	—	8,905	(100.0)%
Unallocated shared service costs	67,087	64,010	4.8%
Operating income (loss)	<u>\$ 137,678</u>	<u>\$ (106,498)</u>	229.3%

(1) HR BPO net revenues include \$51,857 and \$90,704 of third party supplier revenues for the nine months ended June 30, 2007 and 2006, respectively. The third party supplier arrangements are generally marginally profitable. The related third party supplier expenses are included in other operating expenses.

### **Benefits Outsourcing**

Benefits Outsourcing net revenue, adjusting for the impact of foreign currency translation of \$5.9 million, increased 0.5% during the nine months ended June 30, 2007 as compared to the prior-year period. An increase in project revenue was partially offset by a decrease in revenue related to lost clients.

Benefits Outsourcing operating income increased 3.0% as compared to the same prior-year period due to efficiencies realized from global sourcing and other cost management initiatives. The increase was partially offset by increases in compensation and related costs associated with higher salaries and performance based incentives as well as a second quarter charge associated with the resolution of a legal dispute with a vendor. Also offsetting the increase are higher asset impairment charges related to the write-off of capitalized software and deferred contract costs as well as increased client service delivery expenses.

### **Human Resource Business Process Outsourcing**

HR BPO net revenue, excluding third party revenue and adjusting for the impact of foreign currency translation of \$5.3 million, increased 17.4% during the nine months ended June 30, 2007 as compared to the prior-year period. The increase is primarily related to an increase in the number of clients who went live with contract services over the last twelve months and growth in revenue from existing clients including an increase in project work.

HR BPO operating loss decreased 62.6% as compared to the prior-year quarter. The prior year results reflected charges of \$172 million for goodwill impairment, \$90 million for anticipated losses on certain HR BPO contracts and \$7 million for impairment of intangible assets. Excluding the charges, the operating loss increased due to higher compensation and related costs, including performance based incentives, and charges of \$13.9 million associated with the restructuring of a client contract. Also contributing to the increased operating loss are higher other operating expenses resulting from clients who went live with contracted services over the last twelve months, increased severance charges resulting from restructuring activities, higher intangible amortization expense related to the non-renewal of a client contract, and higher impairment charges related to the write-off of deferred costs associated with various client contracts.

### **Consulting**

Consulting net revenues, adjusting for the favorable effects of foreign currency translation of \$24.4 million and acquisitions of approximately \$7.3 million, increased 5.7%. The majority of this growth resulted from increased demand for Retirement and Financial Management consulting, in particular, driven by the new funding legislation in the U.S. and upcoming pension accounting changes. Also contributing to the revenue growth is increased demand for Talent and Organizational Consulting services.

Segment income decreased 6.0% as compared to the same prior-year period resulting from higher compensation expense driven by increased performance-based incentives and increased wages, partially offset by revenue growth.

### **Unallocated Shared Service Costs**

Unallocated shared service costs are global expenses that are incurred on behalf of the entire Company and are not specific to a business segment. These costs include financial, general counsel, management and corporate relations and other related costs. Prior to the current quarter, unallocated shared service costs also included various costs specific to individual business segments. During the second quarter, the Company performed a detailed review of shared service costs and how they are consumed. The review identified shared service costs that could be directly attributed to a business segment either directly, by embedding the cost in the business segment, or through assignment of costs based upon usage. Prior period results were adjusted to reflect this change.

Unallocated cost increased 4.8% primarily due to increased professional services related to the Company's ongoing strategic initiatives, offset by productivity savings resulting from restructuring activities.

## Critical Accounting Policies and Estimates

For a description of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

## Liquidity and Capital Resources

We have historically funded our growth and working capital requirements with internally generated funds, credit facilities and term notes. We believe we have broad access to debt and equity capital markets.

Summary of Cash Flows (in thousands)	Nine Months Ended June 30,	
	2007	2006
Cash provided by operating activities	\$ 257,988	\$ 288,886
Cash used in investing activities	(45,875)	(283,300)
Cash used in financing activities	(111,437)	(13,142)
Effect of exchange rates on cash	7,346	2,888
Net increase (decrease) in cash and cash equivalents	108,022	(4,668)
Cash and cash equivalents at beginning of period	138,928	157,928
Cash and cash equivalents at end of period	<u>\$ 246,950</u>	<u>\$ 153,260</u>

Working capital, defined as current assets less current liabilities, increased \$99.8 million from September 30, 2006 to \$528.9 million at June 30, 2007, primarily due to strong cash flow from operating activities and proceeds from the exercise of stock options. These were offset by cash used for share repurchases through the Company's share repurchase program and expenditures for property and equipment and intangible assets.

The decrease in cash provided by operating activities was primarily due to a higher level of performance-based compensation, severance payments, and tax payments net of refunds. These were partially offset by an increase in cash collected on accounts receivable and a reduction in compensation due to cost management initiatives.

The decrease in cash used in investing activities was primarily due to reductions in cash used to purchase short-term investments, coupled with increases in proceeds received from the sale of short-term investments to fund the higher level of performance-based compensation and the Company's share repurchase program.

The increase in cash used in financing activities was primarily due to an increase in share repurchases relating to the Company's share repurchase program, partially offset by an increase in proceeds from the exercise of stock options. The Company repurchased approximately 4.2 million of its outstanding shares at an average price of \$29.97, for a total of approximately \$126.4 million, during the current year.

At June 30, 2007 the Company had available credit facilities with domestic and foreign banks for various purposes. The amount of unused credit facilities as of June 30, 2007 was approximately \$230 million.

On August 8, 2007, the Company commenced a modified "Dutch Auction" tender offer to purchase up to 15.6 million shares, or 14% of its outstanding Class A common stock at a purchase price between \$28.75 and \$32.00 per share. The tender offer is set to expire on September 5, 2007. The Company intends to use its existing liquidity to fund the tender offer.

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.

### **Commitments**

Significant ongoing commitments consist primarily of leases, debt, purchase commitments and certain other long-term liabilities. For a summary and description of our ongoing commitments and contractual obligations, see our Annual Report on Form 10-K for the fiscal year ended September 30, 2006 and the “Commitments” section of the Liquidity and Capital Resources section of Management’s Discussion and Analysis of Financial Condition and Results of Operations. There were no material changes in these commitments during the three months ended June 30, 2007.

### **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. Actual results may differ from the forward-looking statements for many reasons. Important factors known to us that could cause such material differences are identified and discussed from time to time in our filings with the Securities and Exchange Commission, including those factors discussed in Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the year ended September 30, 2006. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or for any other reason. Such important factors include:

- The outsourcing and consulting markets are highly competitive, and if we are not able to compete effectively our revenues and profit margins will be adversely affected
- A significant or prolonged economic downturn could have a material adverse effect on our revenues and profit margin
- The profitability of our engagements with clients may not meet our expectations due to unexpected costs, cost overruns, early contract terminations, unrealized assumptions used in our contract bidding process and the inability to maintain our prices
- We might not be able to achieve the cost savings required to sustain and increase our profit margins
- Our accounting for our long-term contracts requires using estimates and projections that may change over time. Such changes may have a significant or adverse effect on our reported results of operations or consolidated balance sheet
- The loss of a significantly large client or several clients could have a material adverse effect on our revenues and profitability
- We may have difficulty integrating or managing acquired businesses, which may harm our financial results or reputation in the marketplace
- Our business will be negatively affected if we are not able to anticipate and keep pace with rapid changes in government regulations or if government regulations decrease the need for our services or increase our costs
- If we are unable to satisfy regulatory requirements relating to internal controls over financial reporting, our business could suffer
- Our business performance and growth plans will be negatively affected if we are not able to effectively apply technology in driving value for our clients through technology-based solutions or gain internal efficiencies through the effective application of technology and related tools

- If our clients or third parties are not satisfied with our services, we may face damage to our professional reputation or legal liability
- Improper disclosure of personal data could result in liability and harm our reputation
- We depend on our employees; the inability to attract new talent or the loss of key employees could damage or result in the loss of client relationships and adversely affect our business
- Our global operations and expansion strategy pose complex management, foreign currency, legal, tax and economic risks, which we may not adequately address
- The demand for our services may not grow at rates we anticipate
- 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 rely on third parties to provide services and their failure to perform the service could do harm to our business
- 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 heavily on our computing and communications infrastructure and the integrity of these systems in the delivery of services for our clients, and our operational performance and revenue growth depends, in part, on the reliability and functionality of this infrastructure as a means of delivering human resources services
- Our quarterly revenues, operating results and profitability will vary from quarter to quarter, which may result in volatility of our stock price
- There are significant limitations on the ability of any person or company to buy Hewitt without the approval of the Board of Directors, which may decrease the price of our Class A common stock
- Section 203 of the Delaware General Corporation Law may delay, defer or prevent a change in control that our stockholders might consider to be in their best interest

You should carefully consider each cautionary factor and all of the other information in this report. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosure we make on related subjects in future reports to the SEC.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

We are exposed to market risk from changes in interest rates and foreign currency exchange rates. As of June 30, 2007, there have been no material changes in our market risk from September 30, 2006. For further information regarding our market risk, refer to our Annual Report on Form 10-K for the year ended September 30, 2006.

### **Item 4. Controls and Procedures**

#### *Evaluation of Disclosure Controls and Procedures.*

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this quarterly report (the “Evaluation Date”). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company’s management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Control over Financial Reporting.*

There has been no significant change in our internal control over financial reporting that occurred during the three months ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

The Company is involved in disputes arising in the ordinary course of its business relating to Outsourcing or Consulting agreements, professional liability claims, vendors or service providers or employment claims. We are also routinely audited and subject to inquiries by governmental and regulatory agencies. The Company evaluates estimated losses under SFAS 5, *Accounting for Contingencies*. Management considers such factors as the probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss and records a provision with respect to a claim, suit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can reasonably be estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, the minimum amount in the range is accrued. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded.

The Company is in active discussions with a number of HR BPO clients to renegotiate the terms of their contracts. Through the third quarter, the Company has recorded \$13.9 million related to an ongoing dispute with one of these clients.

The Company does not believe that any unresolved disputes will have a material adverse effect on its financial condition or results of operation. However, litigation in general and the outcome of any matter in particular cannot be predicted with certainty. An unfavorable resolution of one or more pending matters could have a material adverse impact on the Company's results of operations for one or more reporting periods.

On May 8, 2007, the House Committee on Oversight and Government Reform chaired by Henry A. Waxman issued letters to the Company and five other executive compensation consulting firms requesting that they identify all Fortune 250 companies for which they provided both executive compensation consulting services and other services during the past five years and disclose annual revenue for each of those two categories for the year 2002 through 2006. The Company has been responding to the requests and continues to cooperate with the Committee.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### (c) Issuer Purchases of Equity Securities

The following table provides information about Hewitt's share repurchase activity for the three months ended June 30, 2007:

Period	Total Number of Shares Purchased	Average Price Paid per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1—30, 2007 <sup>(1)</sup>				
Class A	1,058,967	\$ 29.48	1,057,500	\$ 680,485,043
May 1—31, 2007 <sup>(1)</sup>				
Class A	939,500	\$ 29.76	939,500	\$ 652,525,262
June 1—30, 2007 <sup>(1)</sup>				
Class A	<u>914,693</u>	\$ 31.76	909,500	\$ 623,620,504
Total Shares Purchased:				
Class A	<u>2,913,160</u>	\$ 30.29	2,906,500	\$ 623,620,504

- (1) The shares purchased relate to share repurchases as a result of the Company's share repurchase program and also shares employees have elected to have withheld to cover their minimum withholding requirements for personal taxes related to the vesting of restricted stock or restricted stock units. The average price paid per share for April 1, 2007 through June 30, 2007 represents a weighted average of the closing stock prices on the dates the shares were repurchased or withheld.
- (2) During the second quarter of fiscal year 2007, the board of directors authorized the Company to repurchase up to \$750 million of its outstanding common shares through January 31, 2009.

## Item 6. Exhibits

### a. Exhibits.

- 10.1 Employment letter dated March 23, 2007 to Tracy Keogh (filed herewith).
- 10.2 Second Amendment, dated August 6, 2007 (filed herewith), to the Credit Agreement, by and among Hewitt Associates LLC, Hewitt Associates, Inc. and the lenders named herein and such other lenders as may become a party hereto and Wachovia Bank, National Association, as Administrative Agent for the Lenders, dated May 23, 2005, amended as of August 11, 2006.
- 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).

**ITEMS 1A, 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: August 8, 2007

By: /s/ John J. Park

John J. Park

Chief Financial Officer

(principal financial and accounting officer)

# Hewitt

Hewitt Associates LLC  
 100 Half Day Road  
 Lincolnshire, IL 60069  
 Tel (847) 295-5000  
 Fax (847) 295-7634  
 www.hewitt.com

March 23, 2007

Private and Confidential

Dear Tracy:

We are pleased with your decision to accept our offer, contingent upon approval by the Board of Directors, to join Hewitt Associates as Senior Vice President of Human Resources on May 7, 2007. This letter confirms the terms of our offer:

- An annualized base salary of \$385,000 on a regular, full-time, exempt basis with a performance and pay review in December of 2007, and annually thereafter assuming strong individual performance;
- You will be eligible for a bonus target of 60% of your actual fiscal year base pay earnings. Any award payout will be based on your individual and financial results relative to goals established by you and your manager, and business financial goals. Bonus awards are based on contributions and results through our fiscal year end, September 30, 2007, and are currently planned to be paid in mid-December 2007. You must be employed by Hewitt on the payout date to be eligible to receive an award. We will guarantee your fiscal year 2007 payout at 100% of the above defined target;
- An annual equity grant as defined under our Global Stock Plan consisting of 5,000 shares of performance-based Hewitt stock and 14,000 stock options. The payout of the performance-based shares will be based on the Company's achievement of earnings per share, operating income, and revenue goals as established for other senior officers, and can range from 0% to 200% of the target grant amount. These shares would cliff vest 100% as of September 30, 2009. The stock options would vest 25% per year beginning on September 30, 2007 and annually thereafter for an additional three years. This grant would be subject to you accepting this offer of employment and approval by the Board of Directors;
- A one-time sign-on equity grant of 10,000 Restricted Stock Units. These shares would vest 50% after two years (September 30, 2008) with the remaining 50% vesting as of September 30, 2009. This grant would be subject to you accepting this offer of employment and approval by the Board of Directors. In addition, you will receive a cash sign-on award of \$50,000. Should you leave Hewitt of your own choice before 12 months of service, you will be required to repay a prorated amount of this bonus to Hewitt. For example, if you should leave at six months of employment, you would be asked to repay 50% or \$25,000 of the sign-on bonus;

Argentina  
 Australia  
 Austria  
 Belgium  
 Brazil  
 Canada  
 Channel Islands  
 Chile  
 China  
 Czech Republic  
 France  
 Germany  
 Greece  
 Hong Kong  
 Hungary  
 India  
 Ireland  
 Italy  
 Japan  
 Malaysia  
 Mauritius  
 Mexico  
 Netherlands  
 Philippines  
 Poland  
 Puerto Rico  
 Russia  
 Singapore  
 South Africa  
 South Korea  
 Spain  
 Sweden  
 Switzerland  
 Thailand  
 United Kingdom  
 United States  
 Venezuela

# Hewitt

Ms. Tracy Keogh

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March 23, 2007

- You will be receiving Hewitt's Relocation Policy. The benefits under this policy include no more than two pre-move, home-finding trips, packing, unpacking, and transportation of ordinary household goods; reasonable transportation, meals and lodging en route to your new location; 60 days of temporary housing; duplicate housing costs; family assistance; tax assistance; a supplemental allowance equal to one month's pay, up to a maximum of \$10,000; assistance in selling your home, with home buyout at 180 days; home sale loss protection; assistance in purchasing a new home;
- Participation in our Executive Benefits Plan which consists of the following:
  - Twenty-seven days of vacation/personal time annually;
  - An additional five-week vacation splash after five years of service and every five years thereafter;
  - A voluntary Deferral Plan for base pay and annual incentive; and a Defined Contribution Restoration Plan which provides for the company retirement contribution and company 401(k) match above any qualified limits;
- Participation in our Change-in-Control Executive Severance Program which is described in detail in the enclosed attachment. If separated from Hewitt for reasons other than cause or change-in-control, you would be eligible for severance of one times base pay plus target bonus and 12 months of health care continuation;
- Participation in Hewitt Associates' Financial Security Plans, including an annual company Retirement and Savings Plan contribution and a company 401(k) match; and
- Eligibility for coverage under our comprehensive benefits programs described in the enclosed benefits booklet.

This role positions you as a leader in the company and a member of the Hewitt Leadership Group (HLG). As a member of the HLG, you will be subject to Hewitt's stock ownership guidelines and will be required to abide by Hewitt's non-compete agreement.

This offer is contingent upon Hewitt receiving completed and satisfactory background and reference checks, including our review of an investigative consumer report. In addition, this offer is contingent upon approval by the Board of Directors.

Enclosed is a copy of Hewitt's Confidentiality Agreement for your review. Please call us if you have any questions about its meaning.

# Hewitt

Ms. Tracy Keogh

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March 23, 2007

We recognize that you retain the option, as does Hewitt, of ending your employment with the company at any time, with or without notice and with or without cause. As such, your employment with Hewitt is at-will and neither this letter, nor any other oral or written representations may be considered a contract for any specific period of time.

If there is any additional information you need, please feel free to contact me.

Sincerely,

Hewitt Associates LLC

/s/ Russell P. Fradin

Russell P. Fradin

RPF:tmg

Enclosures

cc: Ms. Betsy L. Hagan, Hewitt Associates

Accepted by:  /s/ Tracy Keogh

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Date: April 2, 2007

**SECOND AMENDMENT TO CREDIT AGREEMENT**

**THIS SECOND AMENDMENT TO CREDIT AGREEMENT** (this "Amendment"), dated as of August [6], 2007, is by and among **HEWITT ASSOCIATES L.L.C.**, an Illinois limited liability company (the "Borrower"), **HEWITT ASSOCIATES, INC.**, a Delaware corporation ("HAI") and **WACHOVIA BANK, NATIONAL ASSOCIATION**, as administrative agent on behalf of the Lenders (defined below) under the Credit Agreement (defined below) (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed thereto in the Credit Agreement, as amended hereby.

**WITNESSETH**

**WHEREAS**, the Borrower, HAI, certain banks and financial institutions from time to time party thereto (the "Lenders") and the Administrative Agent are parties to that certain Credit Agreement dated as of May 23, 2005 (as amended, modified, supplemented, or restated from time to time, the "Credit Agreement");

**WHEREAS**, the Borrower and HAI have requested the Required Lenders amend certain provisions of the Credit Agreement; and

**WHEREAS**, the Required Lenders are willing to make such amendments to the Credit Agreement, subject to the terms and conditions set forth herein.

**NOW, THEREFORE**, in consideration of the agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

**ARTICLE I  
AMENDMENT TO CREDIT AGREEMENT**

**1.1 Amendment to Section 3.4.** Section 3.4 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

3.4 Use of Proceeds; Margin Stock.

The Borrower shall use the proceeds of the Loans and other Extensions of Credit made available hereunder to refinance any obligations outstanding under the Existing Facilities, for its general working capital purposes and for such other legal and proper purposes as are consistent with all applicable laws, the Borrower's organizational documents and the terms of this Credit Agreement. Neither the Borrower, HAI nor any Subsidiary is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System). No part of the proceeds

of any Extension of Credit hereunder will be used directly or indirectly for any purpose that violates, or that would require any Lender to make any filings in accordance with, the provisions of regulation T, U or X of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect.

## **ARTICLE II CONDITIONS TO EFFECTIVENESS**

**2.1 Closing Conditions.** This Amendment shall become effective as of date hereof (the “Second Amendment Effective Date”) upon satisfaction of the following conditions (in form and substance reasonably acceptable to the Administrative Agent):

(a) Executed Amendment. The Administrative Agent shall have received a copy of this Amendment duly executed by each of each of the Borrower, HAI and the Administrative Agent, on behalf of the Required Lenders.

(b) Executed Consents. The Administrative Agent shall have received executed consents, in the form of Exhibit A attached hereto, from the Required Lenders authorizing the Administrative Agent to enter into this Amendment on their behalf. The delivery by the Administrative Agent of a signature to this Amendment shall constitute conclusive evidence that the consents from the Required Lenders have been obtained.

(c) Miscellaneous. All other documents and legal matters in connection with the transactions contemplated by this Amendment shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

## **ARTICLE III MISCELLANEOUS**

**3.1 Amended Terms.** On and after the Second Amendment Effective Date, all references to the Credit Agreement in each of the Credit Documents shall hereafter mean the Credit Agreement as amended by this Amendment. Except as specifically amended hereby or otherwise agreed, the Credit Agreement is hereby ratified and confirmed and shall remain in full force and effect according to its terms.

**3.2 Representations and Warranties of the Borrower and HAI.** Each of the Borrower and HAI represents and warrants as follows:

(a) It has taken all necessary action to authorize the execution, delivery and performance of this Amendment.

(b) This Amendment has been duly executed and delivered by such Person and constitutes such Person’s legal, valid and binding obligations, enforceable in accordance with its terms, except as such enforceability may be subject to (i) bankruptcy,

insolvency, reorganization, fraudulent conveyance or transfer, moratorium or similar laws affecting creditors' rights generally and (ii) general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity).

(c) No consent, approval, authorization or order of, or filing, registration or qualification with, any court or governmental authority or third party is required in connection with the execution, delivery or performance by such Person of this Amendment.

(d) The representations and warranties set forth in Section 3 of the Credit Agreement are true and correct as of the date hereof (except for those which expressly relate to an earlier date).

(e) After giving effect to this Amendment, no event has occurred and is continuing which constitutes a Default or an Event of Default.

(f) Except as specifically provided in this Amendment, the Credit Party Obligations are not reduced or modified by this Amendment and are not subject to any offsets, defenses or counterclaims.

**3.3 Reaffirmation of Credit Party Obligations.** Each of the Borrower and HAI hereby ratifies the Credit Agreement and acknowledges and reaffirms (a) that it is bound by all terms of the Credit Agreement applicable to it and (b) that it is responsible for the observance and full performance of its respective Credit Party Obligations.

**3.4 Credit Document.** This Amendment shall constitute a Credit Document under the terms of the Credit Agreement.

**3.5 Further Assurances.** HAI and the Borrower agree to promptly take such action, upon the request of the Administrative Agent, as is necessary to carry out the intent of this Amendment.

**3.6 Entirety.** This Amendment and the other Credit Documents embody the entire agreement between the parties hereto and supersede all prior agreements and understandings, oral or written, if any, relating to the subject matter hereof.

**3.7 Counterparts; Telecopy.** This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. Delivery of an executed counterpart to this Amendment by telecopy shall be effective as an original and shall constitute a representation that an original will be delivered.

**3.8 No Actions, Claims, Etc.** As of the date hereof, each of the Borrower and HAI hereby acknowledges and confirms that it has no knowledge of any actions, causes of action, claims, demands, damages and liabilities of whatever kind or nature, in law or in

equity, against the Administrative Agent, the Lenders, or the Administrative Agent's or the Lenders' respective officers, employees, representatives, agents, counsel or directors arising from any action by such Persons, or failure of such Persons to act under this Credit Agreement on or prior to the date hereof.

**3.9 GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).**

**3.10 Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

**3.11 General Release.** In consideration of the Administrative Agent, on behalf of the Lenders, entering into this Amendment, each of the Borrower and HAI hereby releases the Administrative Agent, the Lenders, and the Administrative Agent's and the Lenders' respective officers, employees, representatives, agents, counsel and directors from any and all actions, causes of action, claims, demands, damages and liabilities of whatever kind or nature, in law or in equity, now known or unknown, suspected or unsuspected to the extent that any of the foregoing arises from any action or failure to act under the Credit Agreement on or prior to the date hereof, except, with respect to any such Person being released hereby, any actions, causes of action, claims, demands, damages and liabilities arising out of such Person's gross negligence, bad faith or willful misconduct.

**3.12 Consent to Jurisdiction; Service of Process; Waiver of Jury Trial.** The jurisdiction, services of process and waiver of jury trial provisions set forth in Sections 8.14 and 8.17 of the Credit Agreement are hereby incorporated by reference, *mutatis mutandis*.

**3.13 Fees.** The Borrower agrees to pay all reasonable costs, fees and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment, including, without limitation, the reasonable fees and expenses of the Administrative Agent's legal counsel, Moore & Van Allen PLLC.

HEWITT ASSOCIATES L.L.C.  
SECOND AMENDMENT TO CREDIT AGREEMENT

IN WITNESS WHEREOF the Borrower, HAI and the Administrative Agent, on behalf of the Required Lenders have caused this Amendment to be duly executed on the date first above written.

BORROWER:

HEWITT ASSOCIATES L.L.C.,  
an Illinois limited liability company

By: /s/ John M. Ryan

Name: John M. Ryan

Title: Senior Vice President

HEWITT ASSOCIATES, INC.,  
a Delaware corporation

By: /s/ John M. Ryan

Name: John M. Ryan

Title: Senior Vice President

HEWITT ASSOCIATES L.L.C.  
SECOND AMENDMENT TO CREDIT AGREEMENT

ADMINISTRATIVE AGENT:

WACHOVIA BANK, NATIONAL ASSOCIATION,  
as Administrative Agent on behalf of the Required Lenders

By: /s/ Robert Sevin

Name: Robert Sevin

Title: Director

**EXHIBIT A**  
**FORM OF**  
**CONSENT TO SECOND AMENDMENT**

**See attached.**

## CONSENT TO SECOND AMENDMENT

This Consent is given pursuant to the Credit Agreement, dated as of May 23, 2005 (as previously amended and modified, the "Credit Agreement"; and as further amended by the Amendment (as defined below), the "Amended Credit Agreement"), by and among Hewitt Associates L.L.C., an Illinois limited liability company (the "Borrower"), Hewitt Associates, Inc., a Delaware corporation ("HAI"), the lenders and other financial institutions from time to time party thereto (the "Lenders") and WACHOVIA BANK, NATIONAL ASSOCIATION, as administrative agent on behalf of the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement unless otherwise defined herein.

The undersigned hereby approves the amendment of the Credit Agreement effected by the Second Amendment to Credit Agreement and Waiver (the "Amendment"), to be dated on or about August 6, 2007, by and among the Borrower, HAI, and the Administrative Agent and hereby authorizes the Administrative Agent to execute and deliver the Amendment on its behalf and, by its execution below, the undersigned agrees to be bound by the terms and conditions of the Amendment and the Amended Credit Agreement.

Delivery of this Consent by telecopy shall be effective as an original.

A duly authorized officer of the undersigned has executed this Consent as of the 6<sup>th</sup> day of August, 2007.

KEY BANK NATIONAL ASSOCIATION,  
as a Lender

By: /s/ Frank J. Jancar  
Name: Frank J. Jancar  
Title: Vice President

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Delivery of this Consent by telecopy shall be effective as an original.

A duly authorized officer of the undersigned has executed this Consent as of the 6<sup>th</sup> day of August, 2007.

Harris N.A.,  
as a Lender

By: /s/ Kathleen J. Collins  
Name: Kathleen J. Collins  
Title: Director

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Delivery of this Consent by telecopy shall be effective as an original.

A duly authorized officer of the undersigned has executed this Consent as of the 6<sup>th</sup> day of August, 2007.

JPMorgan Chase Bank, N.A.,  
as a Lender

By: /s/ Sabir A. Hashmy  
Name: Sabir A. Hashmy  
Title: Vice President

## CONSENT TO SECOND AMENDMENT

This Consent is given pursuant to the Credit Agreement, dated as of May 23, 2005 (as previously amended and modified, the "Credit Agreement"; and as further amended by the Amendment (as defined below), the "Amended Credit Agreement"), by and among Hewitt Associates L.L.C., an Illinois limited liability company (the "Borrower"), Hewitt Associates, Inc., a Delaware corporation ("HAI"), the lenders and other financial institutions from time to time party thereto (the "Lenders") and WACHOVIA BANK, NATIONAL ASSOCIATION, as administrative agent on behalf of the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement unless otherwise defined herein.

The undersigned hereby approves the amendment of the Credit Agreement effected by the Second Amendment to Credit Agreement and Waiver (the "Amendment"), to be dated on or about August 6, 2007, by and among the Borrower, HAI, and the Administrative Agent and hereby authorizes the Administrative Agent to execute and deliver the Amendment on its behalf and, by its execution below, the undersigned agrees to be bound by the terms and conditions of the Amendment and the Amended Credit Agreement.

Delivery of this Consent by telecopy shall be effective as an original.

A duly authorized officer of the undersigned has executed this Consent as of the 6<sup>th</sup> day of August, 2007.

Citibank, N.A.,  
as a Lender

By: /s/ Rob Malleck  
Name: Rob Malleck, VP  
Title: Director

## CERTIFICATIONS

I, Russell P. Fradin, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures 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
  - d) 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: August 8, 2007

By: /s/ Russell P. Fradin  
Russell P. Fradin  
Chief Executive Officer

## CERTIFICATIONS

I, John J. Park, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures 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
  - d) 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: August 8, 2007

By: /s/ John J. Park  
John J. Park  
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, 2007, 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) or 15(d) 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: August 8, 2007

By: /s/ Russell P. Fradin  
Russell P. Fradin  
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, 2007, 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) or 15(d) 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: August 8, 2007

By: /s/ John J. Park

John J. Park

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.*