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**UNITED STATES  
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 December 31, 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)

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**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.

Class	Outstanding shares at December 31, 2007
Class A Common Stock—\$0.01 par value	102,997,191

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HEWITT ASSOCIATES, INC.

FORM 10-Q  
FOR THE PERIOD ENDED  
DECEMBER 31, 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>December 31,</u> <u>2007</u>	<u>September 30,</u> <u>2007</u>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 345,910	\$ 378,743
Short-term investments	83,101	216,726
Client receivables and unbilled work in process, less allowances of \$19,750 and \$18,933 at December 31, 2007 and September 30, 2007, respectively	671,617	632,011
Prepaid expenses and other current assets	97,539	86,683
Funds held for clients	117,785	133,163
Deferred income taxes, net	35,780	32,533
Total current assets	<u>1,351,732</u>	<u>1,479,859</u>
Non-Current Assets:		
Deferred contract costs	378,500	372,363
Property and equipment, net	360,582	355,907
Other intangible assets, net	189,428	196,133
Goodwill	314,711	319,314
Other non-current assets, net	43,669	31,962
Total non-current assets	<u>1,286,890</u>	<u>1,275,679</u>
<b>Total Assets</b>	<u><b>\$2,638,622</b></u>	<u><b>\$2,755,538</b></u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 18,165	\$ 21,304
Accrued expenses	197,549	212,097
Funds held for clients	117,785	133,163
Advanced billings to clients	204,780	170,131
Accrued compensation and benefits	265,087	353,265
Short-term debt	32,527	30,369
Current portion of long-term debt and capital lease obligations	24,407	24,222
Total current liabilities	<u>860,300</u>	<u>944,551</u>
Non-Current Liabilities:		
Deferred contract revenues	285,718	271,359
Debt and capital lease obligations, less current portion	231,793	233,465
Other non-current liabilities	202,849	165,264
Deferred income taxes, net	122,651	102,887
Total non-current liabilities	<u>843,011</u>	<u>772,975</u>
<b>Total Liabilities</b>	<u><b>\$1,703,311</b></u>	<u><b>\$1,717,526</b></u>

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

	<u>December 31,</u> <u>2007</u>	<u>September 30,</u> <u>2007</u>
	<u>(Unaudited)</u>	
<b>STOCKHOLDERS' EQUITY</b>		
Stockholders' Equity:		
Class A common stock, par value \$0.01 per share, 750,000,000 shares authorized, 128,156,157 and 127,672,253 shares issued, 102,997,191 and 107,126,309 shares outstanding, as of December 31, 2007 and September 30, 2007, respectively	\$ 1,282	\$ 1,277
Additional paid-in capital	1,495,930	1,472,409
Cost of common stock in treasury, 25,158,966 and 20,545,944 shares of Class A common stock as of December 31, 2007 and September 30, 2007, respectively	(767,995)	(597,200)
Retained earnings	82,363	38,144
Accumulated other comprehensive income, net	123,731	123,382
Total stockholders' equity	<u>935,311</u>	<u>1,038,012</u>
Total Liabilities and Stockholders' Equity	<u>\$2,638,622</u>	<u>\$2,755,538</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	
	December 31,	
	2007	2006
<b>Revenues:</b>		
Revenues before reimbursements (net revenues)	\$ 793,843	\$ 726,630
Reimbursements	25,149	19,420
Total revenues	<u>818,992</u>	<u>746,050</u>
<b>Operating expenses:</b>		
Compensation and related expenses	494,125	486,800
Asset impairment	225	956
Reimbursable expenses	25,149	19,420
Other operating expenses	140,530	153,879
Selling, general and administrative expenses	50,030	38,462
Total operating expenses	<u>710,059</u>	<u>699,517</u>
Operating income	108,933	46,533
<b>Other income, net:</b>		
Interest expense	(3,744)	(5,376)
Interest income	8,598	6,944
Other (expense) income, net	(384)	827
Total other income, net	<u>4,470</u>	<u>2,395</u>
Income before income taxes	113,403	48,928
Provision for income taxes	49,456	18,863
Net income	<u>\$ 63,947</u>	<u>\$ 30,065</u>
<b>Earnings per share:</b>		
Basic	\$ 0.61	\$ 0.28
Diluted	\$ 0.59	\$ 0.27
<b>Weighted average shares:</b>		
Basic	104,777,402	109,036,948
Diluted	109,494,279	110,616,767

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

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

	<b>Three Months Ended</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 63,947	\$ 30,065
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization, including amortization of deferred contract revenues and costs	41,348	45,369
Asset impairment	225	956
Share-based compensation	9,336	9,738
Deferred income taxes	17,589	1,243
<b>Changes in operating assets and liabilities, net of effect of acquisitions and dispositions:</b>		
Client receivables and unbilled work in process	(35,216)	(28,840)
Prepaid expenses and other current assets	(8,756)	(1,178)
Deferred contract costs	(30,650)	(33,613)
Other assets	(14,248)	1,623
Accounts payable	(3,399)	(12,427)
Accrued compensation and benefits	(109,459)	(65,846)
Accrued expenses	(24,631)	7,452
Advanced billings to clients	34,649	53,956
Deferred contract revenues	35,088	15,685
Other long-term liabilities	37,744	(8,635)
Net cash provided by operating activities	13,567	15,548
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(345,775)	(36,500)
Proceeds from sales of short-term investments	479,400	52,002
Additions to property and equipment	(23,403)	(21,323)
Net cash provided by (used in) investing activities	110,222	(5,821)
<b>Cash flows from financing activities:</b>		
Proceeds from the exercise of stock options	12,012	3,850
Excess tax benefits from the exercise of share-based awards	1,022	13
Short-term borrowings	13,523	29,712
Repayments of short-term borrowings, capital leases and long-term debt	(13,685)	(30,410)
Purchase of Class A common shares for treasury	(170,795)	(221)
Net cash (used in) provided by financing activities	(157,923)	2,944
Effect of exchange rate changes on cash and cash equivalents	1,301	3,675
Net (decrease) increase in cash and cash equivalents	(32,833)	16,346
Cash and cash equivalents, beginning of period	378,743	138,928
Cash and cash equivalents, end of period	<u>\$ 345,910</u>	<u>\$155,274</u>
<b>Supplementary disclosure of cash paid during the period:</b>		
Interest paid	\$ 3,614	\$ 6,850
Income taxes paid	\$ 18,618	\$ 19,656

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)**

**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 December 31, 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, 2007, as filed with the Securities and Exchange Commission.

*New Accounting Pronouncements*

In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS No. 141(R)”). This Statement provides various accounting and disclosure requirements which are applicable prospectively to business combinations on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (our fiscal year 2010). The Company is currently evaluating the potential impact, if any, of SFAS No. 141(R) on its consolidated financials statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements-an amendment of ARB No. 51* (“SFAS No. 160”). This Statement establishes accounting and reporting standards for noncontrolling interests and transactions between the reporting party and such noncontrolling interests. The guidance will become effective as of the beginning of a company’s fiscal year beginning after December 15, 2008 (our fiscal year 2010). The Company is currently evaluating the potential impact, if any, of SFAS No. 160 on its consolidated financials statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). 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. The Company adopted the provisions of FIN 48 on October 1, 2007. The cumulative effect of applying the provisions of this interpretation has been recorded as a decrease of \$7,036 to retained earnings, a decrease of \$3,963 to the income tax payable, a decrease of \$5,047 to deferred tax assets and an increase to the FIN 48 liability account of \$5,952 as of October 1, 2007. Refer to Note 8 for further discussion.

In June 2006, the FASB ratified Emerging Issues Task Force Issue 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF 06-2). Under EITF 06-2, compensation costs associated with a sabbatical should be accrued over the requisite service period, assuming certain conditions are met. Previously, the Company expensed sabbatical costs as incurred. The Company adopted EITF 06-2 effective October 1, 2007, as required and accordingly, recorded a \$12,692 cumulative adjustment, net of tax, to decrease retained earnings on October 1, 2007. The annual impact to earnings of this accounting change is not expected to be significant.

#### Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

### 3. Goodwill and Other Intangible Assets, Net

Following is a summary of changes in the carrying amount of goodwill for the three months ended December 31, 2007:

	<b>Benefits Outsourcing</b>	<b>Consulting</b>	<b>Total</b>
Balance at September 30, 2007	\$ 48,380	\$270,934	\$319,314
Adjustment and reclassification	(1,606)	—	(1,606)
Effect of changes in foreign exchange rates	385	(3,382)	(2,997)
Balance at December 31, 2007	<u>\$ 47,159</u>	<u>\$267,552</u>	<u>\$314,711</u>

The adjustment and reclassification from goodwill during the three months ended December 31, 2007 pertains to adjustments to the opening balance sheet related to the acquisition of a benefits management services provider which occurred in the fourth quarter of fiscal 2007. The Company expects to finalize the opening balance sheet related to this acquisition by the end of the current fiscal year.

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 December 31, 2007 and September 30, 2007:

	<b>December 31, 2007</b>			<b>September 30, 2007</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Trademarks and tradenames	\$ 15,328	\$ 14,315	\$ 1,013	\$ 15,548	\$ 14,498	\$ 1,050
Core technology	27,105	13,426	13,679	25,499	12,572	12,927
Customer relationships	255,395	80,659	174,736	256,024	73,868	182,156
Total	<u>\$297,828</u>	<u>\$ 108,400</u>	<u>\$189,428</u>	<u>\$297,071</u>	<u>\$ 100,938</u>	<u>\$196,133</u>

The increase in the gross carrying amount of core technology pertains to adjustments to the opening balance sheet related to the acquisition of a benefits management services provider which occurred in the fourth quarter of fiscal 2007. The Company expects to finalize the opening balance sheet related to this acquisition by the end of the current fiscal year.

Amortization expense related to definite useful life assets for the three months ended December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Trademarks and tradenames	\$ 38	\$ 677
Core technology	853	1,212
Customer relationships	<u>6,915</u>	<u>6,944</u>
Total	<u>\$7,806</u>	<u>\$8,833</u>

#### 4. Severance Accrual

During fiscal 2007, the Company implemented several productivity initiatives across the business that resulted in a reduction in workforce. The Company's severance policy provides that 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 certain affected employees outside of the United States, the amount of severance is based upon the requirements of local regulations. As of December 31, 2007, the Company has estimated its severance obligations to be \$6,827 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 Company recorded charges of \$485 in the first quarter and did not make any payments related to those charges during the first quarter. The Company recorded adjustments of \$1,265 relating to higher than expected attrition.

The following table summarizes the activity in the severance accrual for the three months ended December 31, 2007:

	<u>September 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Adjustments</u>	<u>December 31, 2007</u>
Severance Accrual	\$ 10,661	\$ 485	\$(3,054)	\$ (1,265)	\$ 6,827

The Company anticipates that the remaining accrual will be paid out by the end of fiscal 2008.

#### 5. Restructuring Activities

In conjunction with an ongoing review of the Company's leased real estate portfolio, during the third quarter of fiscal 2007, the Company announced its intention to consolidate facilities, and in some cases, exit certain properties. During the fourth quarter of fiscal 2007, the Company recorded expense of \$17,777 related to the exit and consolidation of certain facilities in both the U.S. and international locations. The charges consisted of \$21,649 for recognition of the fair value of lease vacancy obligations and lease termination charges. This was offset by the reversal of accrued rents of \$3,872. The net costs were recorded in other operating expense within the consolidated statements of operations and charged to the Benefits Outsourcing, HR BPO, and Consulting segments in the amounts of \$13,469, \$3,082, and \$1,226, respectively.

The following table summarizes the activity in the restructuring reserves for the three months ended December 31, 2007:

	<u>September 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Adjustments</u>	<u>December 31, 2007</u>
Real estate lease restructuring	\$ 20,887	\$ —	\$(3,003)	\$ (280)	\$17,604

The Company anticipates that the remaining accrual will be paid out by fiscal 2018.

In connection with the 2005 Exult merger, the Company formulated facility exit and severance strategies. The Company recorded \$13,721 of estimated liabilities for costs related to Exult facilities consolidation, the related impact on Exult outstanding real estate leases and Exult involuntary employee terminations and relocations. The accrued obligation was \$2,809 and \$3,132 as of December 31, 2007 and September 30, 2007, respectively. All severance amounts have been paid out as of September 30, 2006. Lease termination costs are expected to be paid by October 2011.

## 6. Share-Based Compensation

During the three months ended December 31, 2007 and 2006, the Company recorded pre-tax share-based compensation expense of \$9,336 and \$9,738, respectively, related to the expensing of the Company's nonqualified stock options, restricted stock, and restricted stock units.

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 (the "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 December 31, 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 December 31, 2007, there were 1,186,717 shares available for grant under the Plan.

### *Restricted Stock and Restricted Stock Units*

The following table summarizes restricted stock and restricted stock units activity during the three months ended December 31, 2007 and 2006:

	December 31, 2007		December 31, 2006	
	Restricted Stock / Restricted Stock Units	Weighted Average Grant Date Fair Value	Restricted Stock / Restricted Stock Units	Weighted Average Grant Date Fair Value
Shares outstanding at beginning of fiscal year	3,135,822	\$ 25.62	2,370,858	\$ 25.95
Granted	1,323,120	\$ 37.61	2,374,925	\$ 25.20
Vested	(59,770)	\$ 24.14	(75,625)	\$ 25.87
Forfeited	(97,749)	\$ 25.84	(132,530)	\$ 26.37
Shares outstanding at end of period	<u>4,301,423</u>	\$ 29.32	<u>4,537,628</u>	\$ 25.55

In December 2007, the Company also granted an aggregate of 106,900 shares of performance-based restricted share units to certain executive officers, subject to stockholder approval. This approval was obtained on January 30, 2008.

## Stock Options

The following table summarizes stock option activity during the three months ended December 31, 2007 and 2006:

	December 31, 2007		December 31, 2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of fiscal year	7,611,095	\$ 24.12	9,664,292	\$ 23.73
Granted	458,290	\$ 37.61	841,650	\$ 25.24
Exercised	(500,364)	\$ 24.02	(179,785)	\$ 21.41
Forfeited	(38,849)	\$ 25.26	(26,933)	\$ 24.31
Expired	(22,450)	\$ 21.64	(295,655)	\$ 25.88
Outstanding at end of period	<u>7,507,722</u>	\$ 24.96	<u>10,003,569</u>	\$ 23.84
Exercisable options at end of period	6,236,162	\$ 23.94	8,219,791	\$ 23.63

In December 2007, the Company also granted an aggregate of 274,300 employee stock options to certain executive officers, subject to stockholder approval. This approval was obtained on January 30, 2008.

The weighted average estimated fair value of employee stock options granted during the three months ended December 31, 2007 and 2006 was \$13.65 and \$9.59 per share, respectively. These stock options were granted at exercise prices equal to the current fair market value of the underlying stock on the grant date.

The fair value used to determine compensation expense for options granted during the three months ended December 31, 2007 and 2006 was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Expected volatility	26.66%	28.22%
Risk-free interest rate	4.31%	4.39%
Expected life	6.16	6.25
Dividend yield	0%	0%

## 7. Pension and Postretirement Benefit Plans

Through various acquisitions, the Company has defined benefit pension plans, the largest of which was closed to new entrants in 1998, providing retirement benefits to eligible employees. The Company also has other smaller defined benefit pension plans to provide benefits to eligible employees. It is the Company's policy to fund 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 benefit costs for the three months ended December 31, 2007 and 2006 include:

Components of Net Periodic Benefit Costs	Pension Benefits		Health Benefits	
	2007	2006	2007	2006
Service cost	\$ 3,332	\$ 3,762	\$ 50	\$ 3
Interest cost	2,817	2,270	214	200
Expected return on plan assets	(3,036)	(2,261)	—	—
Unrecognized prior service cost	23	(10)	—	—
Unrecognized loss	(7)	56	43	51
Net periodic benefit cost	<u>\$ 3,129</u>	<u>\$ 3,817</u>	<u>\$307</u>	<u>\$254</u>

During the three months ended December 31, 2007, contributions of \$8,221 were made by the Company to the pension plans.

## 8. Income Taxes

The Company's consolidated effective income tax rate is 43.6 % and 38.6% for the three months ended December 31, 2007 and 2006 respectively. 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; or 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. The current period higher effective tax rate compared to the comparable prior-year period is due to the mix of income across various jurisdictions and the effect of nonrecurring discrete items in the current period which increased the current period effective rate. The Company included interest and penalties of \$433 in provision for income tax in the consolidated statement of operations.

In June 2006, the FASB issued FIN 48. 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. The Company adopted the provisions of FIN 48 on October 1, 2007. The cumulative effect of applying the provisions of this interpretation has been recorded as a decrease of \$7,036 to retained earnings, a decrease of \$3,963 to the income tax payable, a decrease of \$5,047 to the deferred tax assets and an increase to the FIN 48 liability account of \$5,952 as of October 1, 2007. In conjunction with the adoption of FIN 48, uncertain tax positions have been classified as non-current income tax liabilities unless expected to be paid within one year. Income tax-related interest expense and income tax-related penalties have continued to be reported as a component of the provision for income tax in the consolidated statements of operations. As of December 31, 2007, the total amount of accrued income tax-related interest and penalties included in the consolidated balance sheets was \$12,416.

As of December 31, 2007, the Company was subject to examination in the U.S. federal tax jurisdiction for the 2004-2006 tax years. The Company was also subject to examination in various state and foreign jurisdictions for the 2004 and 2005 tax years, none of which were individually material. The Company has filed an appeal with the Internal Revenue Service ("IRS") for the 2003 income tax examination. The Company believes that appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

As of October 1, 2007, the date of adoption, the total amount of unrecognized tax benefits was \$74,604, of which \$71,876 would affect the effective tax rate, if recognized. If tax matters for 2003 are effectively settled with the IRS within the next 12 months, the total amounts of unrecognized tax benefits may decrease. Settlement could increase earnings up to \$21,600 based on current estimates. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

## 9. Earnings Per Share

Basic earnings per share (“EPS”) is calculated by dividing net income by the weighted average number of shares of common stock outstanding. Diluted EPS includes the components of basic EPS and also gives effect to dilutive common stock equivalents. Treasury stock is not considered outstanding for either basic or diluted EPS as weighted from the date the shares were placed into treasury. For purposes of calculating basic and diluted earnings per share, vested restricted stock awards are considered outstanding. Under the treasury stock method, diluted EPS reflects the potential dilution that could occur if securities or other instruments that are convertible into common stock were exercised or could result in the issuance of common stock. Potentially dilutive common stock equivalents include unvested restricted stock and restricted stock units, unexercised stock options and warrants that are “in-the-money” and outstanding convertible debt securities which would have a dilutive effect if converted from debt to common stock. Restricted stock awards generally vest 25 percent on each anniversary of the grant date and are not considered outstanding in basic earnings per share until the vesting date.

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

	Three Months Ended December 31,	
	2007	2006
<b>Earnings per share – basic:</b>		
Net income as reported	\$ 63,947	\$ 30,065
Weighted-average number of shares of common stock for basic	104,777,402	109,036,948
Earnings per share – basic	<u>\$ 0.61</u>	<u>\$ 0.28</u>
<b>Earnings per share – diluted:</b>		
Net income as reported	\$ 63,947	\$ 30,065
Plus: Income impact of assumed conversions:		
Interest on convertible debt securities	574	—
Net income for per share calculation	<u>\$ 64,521</u>	<u>\$ 30,065</u>
Weighted-average number of shares of common stock for basic	104,777,402	109,036,948
Incremental effect of dilutive common stock equivalents:		
Unvested restricted stock awards	852,256	522,986
Unexercised in-the-money stock options	1,993,873	1,056,833
Convertible debt	1,870,748	—
Weighted-average number of shares of common stock for diluted	<u>109,494,279</u>	<u>110,616,767</u>
Earnings per share – diluted	<u>\$ 0.59</u>	<u>\$ 0.27</u>

Debt securities convertible into 1,870,748 shares of Class A common stock were outstanding in the three months ended December 31, 2007 and 2006, but the weighted-average convertible shares were not included in the computation of diluted earnings per share for the three months ended December 31, 2006 because the effect of including the convertible debt securities would be antidilutive. Warrants to sell 200,000 shares of Class A common stock were outstanding in the three months ended December 31, 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. Stock options to purchase 141,939 and 3,431,441 weighted average shares in the three months ended December 31, 2007 and 2006, respectively, of Class A common stock, were outstanding but were not included in the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the Class A common stock.

## 10. Other Comprehensive Income, Net

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

	Three Months Ended December 31,	
	2007	2006
Net income	\$63,947	\$30,065
Other comprehensive income:		
Foreign currency translation adjustments	421	18,565
Unrealized gains on investments	—	6
Unrealized loss on cash flow hedges	(104)	—
Benefit plans – SFAS 158	32	—
Total comprehensive income	<u>\$64,296</u>	<u>\$48,636</u>

During the three months ended December 31, 2007, the Company initiated a foreign currency risk management program involving the use of non-deliverable forward foreign currency derivatives. Refer to Note 13 for more information on cash flow hedges.

## 11. 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. The Company is 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 its HR BPO clients to renegotiate the terms of their contracts. In December 2007, the Company reached settlement with one of these clients for \$15 million which was previously reserved. The Company paid this settlement during the first quarter. In addition, through the first quarter, the Company has recorded additional charges of approximately \$6 million related to ongoing disputes and settlements with these clients.

The Company does not believe that any unresolved dispute 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.

## 12. Segment Results

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

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 Outsourcing. Following this review, the Company determined that the old Outsourcing segment 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 provided 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.

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' needs for enhanced benefit services.
- **HR BPO**—Hewitt offers 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 services. These services enable companies to reduce costs and focus on their core business while gaining expertise and access to current and innovative technology and processes 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, 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 December 31,	
	2007	2006
<b>Benefits Outsourcing</b>		
Segment revenues before reimbursements	\$403,338	\$387,370
Segment income	120,180	78,829
<b>HR BPO</b>		
Segment revenues before reimbursements	\$148,271	\$133,487
Segment loss	(27,265)	(42,197)
<b>Consulting</b>		
Segment revenues before reimbursements	\$254,374	\$214,895
Segment income	36,436	31,145
<b>Total Company</b>		
Segment revenues before reimbursements	\$805,983	\$735,752
Intersegment revenues	(12,140)	(9,122)
Revenues before reimbursements (net revenues)	793,843	726,630
Reimbursements	25,149	19,420
Total revenues	<u>\$818,992</u>	<u>\$746,050</u>
Segment income	\$129,351	\$ 67,777
Charges not recorded at the segment level:		
Unallocated shared service costs	20,418	21,244
Operating income	<u>\$108,933</u>	<u>\$ 46,533</u>

### 13. Cash Flow Hedges

The Company's risk management strategy includes the use of derivative instruments to reduce the effects on its operating results and cash flows from fluctuations caused by volatility in currency exchange. The Company currently uses cash flow hedges to hedge forecasted transactions with its India operations. The Company enters into non-deliverable forward exchange contracts expiring within 12 months as hedges of anticipated cash flows denominated in foreign currencies. These contracts are entered into to protect against the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates for the U.S. dollar and the Indian rupee.

All derivatives are recognized in the balance sheet at fair value. Fair values for the Company's derivative financial instruments are based on quoted market prices of comparable instruments or, if none are available, on pricing models or formulas using current assumptions. On the date the derivative contract is entered into, the Company determines whether the derivative contract should be designated as a hedge. Changes in the fair value of derivatives that are highly effective are recorded in other comprehensive income until the underlying transactions occur. Any realized gains or losses resulting from the cash flow hedges are recognized together with the hedged transaction in the consolidated statement of operations. At inception date, the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedging activities. This process includes matching all derivatives that are designated as cash flow hedges to specific forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. At December 31, 2007, all hedges were determined to be highly effective.

At December 31, 2007 the Company had net unrealized losses of \$170 on derivatives related to outstanding non-deliverable Indian rupee forward contracts maturing within 12 months, with a notional value of \$45,860. The Company recorded deferred tax assets of \$66 related to these derivatives. A total of \$104 of deferred losses, net of tax, on derivative instruments at December 31, 2007 were accumulated in other comprehensive income. The entire amount is expected to be reclassified into earnings from other comprehensive income during the next 12 months.

During the three months ended December 31, 2007 the Company recorded net losses of \$2 related to the settlement of forward contracts which were designated as cash flow hedges. These amounts have been classified together with the hedged transactions in the consolidated statement of operations as compensation and related expenses.

#### **14. Subsequent Event**

On January 31, 2008 the Company closed on the previously announced sale of the net assets of its Cyborg business ("Cyborg"). Cyborg was acquired in 2003 and provides licensed, processed, and hosted payroll software services. Its operations are included in the HR BPO segment. The divestiture is a part of the Company's continued efforts to streamline its HR outsourcing service offerings. The Company anticipates recording a pre-tax gain of approximately \$36 million during the quarter ending March 31, 2008 as a result of the sale.

## **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 "2008" or "fiscal 2008" means the twelve-month period that ends September 30, 2008. 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.*

### **Overview**

First quarter net revenues, excluding third party supplier revenues and adjusting for the favorable effects of foreign currency translation and acquisitions of approximately \$17.3 million and \$3.8 million, respectively, increased 7.7% as compared to the prior-year period and was driven by growth across all segments. Consulting revenue growth was strong as compared to the prior year for Retirement and Financial Management as well as Talent and Organizational Consulting services. Human Resource Business Process Outsourcing (HR BPO) reported revenue strength in the quarter primarily 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. Also contributing to the increase in HR BPO revenue was the benefit of approximately \$7.7 million related to the resolution of a contract restructuring. Additionally, Benefits Outsourcing also reported higher revenue in the quarter due to an increase in project work and the benefit of approximately \$4.6 million related to the resolution of a contract restructuring.

Operating income increased approximately \$62 million, or 134.1%, from the prior-year quarter. The increase was primarily due to an increase in revenue during the quarter of \$73 million or 9.8%. The revenue growth was partially offset by higher operating expenses of \$11 million or 1.5%. This increase was due to higher compensation and related expenses as well as an increase in selling, general and administrative (SG&A) expenses, primarily due to charges related to ongoing disputes and settlements with various clients of approximately \$7 million. These increases were partially offset by lower other operating expenses.

During the quarter, we continued to repurchase our outstanding common shares. During the three months ended December 31, 2007, we repurchased approximately 4.6 million of our outstanding shares at an average price of \$37.01, for a total of approximately \$170.4 million.

## Consolidated Results of Operations

The following table sets forth our historical results of operations. Operating results for any period are not necessarily indicative of results for any future periods.

### Three Months Ended December 31, 2007 and 2006 Unaudited

<i>(in thousands)</i>	Three Months Ended December 31,			% of Net Revenues	
	2007	2006	% Change	2007	2006
<b>Revenues:</b>					
Net revenues <sup>(1)</sup>	\$793,843	\$726,630	9.2%		
Reimbursements	25,149	19,420	29.5%		
Total revenues	<u>818,992</u>	<u>746,050</u>	9.8%		
<b>Operating expenses:</b>					
Compensation and related expenses	494,125	486,800	1.5%	62.2	67.0
Asset impairment	225	956	(76.5)%	—	0.1
Reimbursable expenses	25,149	19,420	29.5%	3.2	2.7
Other operating expenses <sup>(1)</sup>	140,530	153,879	(8.7)%	17.7	21.2
Selling, general and administrative expenses	50,030	38,462	30.1%	6.3	5.3
Total operating expenses	<u>710,059</u>	<u>699,517</u>	1.5%	<u>89.4</u>	<u>96.3</u>
Operating income	108,933	46,533	134.1%	13.7	6.4
<b>Other income, net:</b>					
Interest expense	(3,744)	(5,376)	30.4%	(0.5)	(0.7)
Interest income	8,598	6,944	23.8%	1.1	1.0
Other (expense) income, net	(384)	827	(146.4)%	—	—
Total other income, net	<u>4,470</u>	<u>2,395</u>	86.6%	<u>0.6</u>	<u>0.3</u>
Income before income taxes	113,403	48,928	131.8%	14.3	6.7
Provision for income taxes	49,456	18,863	162.2%	6.2	2.6
Net income	<u>\$ 63,947</u>	<u>\$ 30,065</u>	112.7%	<u>8.1%</u>	<u>4.1%</u>

(1) Net revenues include \$13,180 and \$21,071 of third party supplier revenues for the three months ended December 31, 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 primarily driven by revenue growth across all segments, with Consulting showing the largest increase. Consulting revenue growth was attributed to an increased demand for Retirement and Financial Management and Talent and Organizational Consulting services. HR BPO revenue growth was primarily 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. Also contributing to the increase in HR BPO revenue was the benefit of approximately \$7.7 million related to the resolution of a contract restructuring. Benefits Outsourcing also contributed to the revenue growth primarily due to an increase in project work and the benefit of approximately \$4.6 million related to the resolution of a contract restructuring. Net revenues, excluding third party supplier revenues and adjusting for the favorable effects of foreign currency translation and acquisitions of approximately \$17.3 million and \$3.8 million, respectively, increased 7.7% as compared to the prior year. Segment results are discussed in greater detail later in this section.

### *Compensation and Related Expenses*

Compensation and related expenses increased 1.5%, or approximately \$7 million. An increase in salary costs resulted from an increase in activities, mostly due to higher margin project work, and higher performance-based compensation. Offsetting these increases were lower salary costs associated with global sourcing and other cost management efforts and a decrease in severance expense, related to prior restructuring actions.

### *Other Operating Expenses*

The decrease in other operating expense of \$13.3 million is primarily due to lower costs related to computer maintenance and telecom services of \$9.4 million, in addition to a reduction in third party supplier costs of \$7.2 million.

### *SG&A*

The increase in SG&A of \$11.6 million is primarily attributed to charges related to ongoing disputes and settlements with various clients of approximately \$7 million. Also contributing to the increase is \$1.9 million of costs related to an annual marketing event for the Company's clients and \$1.8 million in higher consulting costs related to the Company's assessment of its longer-term strategy.

### *Other Income, Net*

Other income increased by \$2.1 million in the period due to higher interest income and lower interest expense. Higher interest income of \$1.7 million resulted from higher average investment balances and higher yields as compared to the prior-year period. Lower interest expense of \$1.6 million related to lower debt balances and also higher capitalized interest as compared to the prior-year period.

### *Provision for Income Taxes*

The Company's consolidated effective income tax rate is 43.6 % for the three months ended December 31, 2007, as compared to 38.6% for the comparable prior-year period. 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; or 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. The current period's higher effective tax rate compared to the comparable prior-year period is due to the mix of income across various jurisdictions and the effect of nonrecurring discrete items in the current period.

## Segment Results

Operating income before unallocated shared service costs is referred to as “segment income” throughout the discussion. Results for the prior year have been recast to be comparable to the current year presentation.

### Reconciliation of Segment Results to Total Company Results

Three Months Ended December 31, 2007 and 2006

Unaudited

(\$ in thousands)	Three Months Ended December 31,		% Change
	2007	2006	
<b>Benefits Outsourcing</b>			
Segment revenues before reimbursements	\$403,338	\$387,370	4.1%
Segment income	120,180	78,829	52.5%
Segment income as a percentage of segment revenues	29.8%	20.3%	
<b>HR BPO</b>			
Segment revenues before reimbursements <sup>(1)</sup>	\$148,271	\$133,487	11.1%
Segment loss	(27,265)	(42,197)	35.4%
Segment loss as a percentage of segment revenues	(18.4)%	(31.6)%	
<b>Consulting</b>			
Segment revenues before reimbursements	\$254,374	\$214,895	18.4%
Segment income	36,436	31,145	17.0%
Segment income as a percentage of segment revenues	14.3%	14.5%	
<b>Total Company</b>			
Segment revenues before reimbursements <sup>(1)</sup>	\$805,983	\$735,752	9.5%
Intersegment revenues	(12,140)	(9,122)	33.1%
Revenues before reimbursements (net revenues)	793,843	726,630	9.2%
Reimbursements	25,149	19,420	29.5%
Total revenues	<u>\$818,992</u>	<u>\$746,050</u>	9.8%
Segment income	\$129,351	\$ 67,777	90.8%
Unallocated shared service costs	20,418	21,244	3.9%
Operating income	<u>\$108,933</u>	<u>\$ 46,533</u>	134.1%

(1) HR BPO net revenues include \$13,180 and \$21,071 of third party supplier revenues for the three months ended December 31, 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 \$2.2 million and acquisitions of approximately \$3 million, increased 2.8%. The increase in revenue is primarily a result of an increase in project work as compared to the prior-year period and the benefit of approximately \$4.6 million related to the resolution of a contract restructuring.

Benefits Outsourcing operating income increased 52.5% as compared to the prior year. Growth was mostly due to an increase from the prior year in higher margin project work and a decrease in compensation expense associated with lower severance and lower salary costs related to global sourcing and other cost management efforts.

### **HR BPO**

HR BPO net revenue, excluding third party revenue and adjusting for the impact of foreign currency translation of \$4.1 million, increased 16.5%. 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. Also contributing to the increase was the benefit of approximately \$7.7 million related to the resolution of a contract restructuring.

HR BPO operating loss decreased 35.4% as compared to the prior-year period. The decrease in the loss was primarily due to an increase in revenue, net of corresponding compensation expenses. Lower severance, related to prior restructuring actions, and salary expenses, associated with global sourcing and other cost management efforts, contributed to the improvement, and more than offset approximately \$5 million of higher SG&A costs mostly due to charges of approximately \$6 million related to ongoing disputes and settlements with various clients.

### **Consulting**

Consulting net revenues, adjusting for the favorable effects of foreign currency translation of \$11 million and acquisitions of approximately \$0.7 million, increased 12.9%. The majority of this growth resulted from increased demand in Europe and North America for Retirement and Financial Management consulting, in particular, driven by funding legislation and ongoing pension accounting changes. Also contributing to the revenue growth is increased demand for Talent and Organizational Consulting services across all major geographies, as well as strong demand for communication and health management services in North America.

Segment income increased 17.0% as compared to the same prior-year period due to revenue growth, offset by higher compensation expense driven by increased wages and performance-based incentives.

### **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, legal, management and corporate relations and other related costs. Prior to the second quarter of fiscal 2007, unallocated shared service costs also included various costs specific to individual business segments. During the second quarter of fiscal 2007, the Company performed a detailed review of shared service costs and how they are consumed. The review identified shared service costs that could be 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 have been adjusted to reflect this change.

Unallocated cost decreased 3.9%, primarily due to severance expense incurred in the prior year related to restructuring actions partially offset by increased professional service fees related to the Company's strategic initiatives.

### **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, 2007.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). 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. The Company adopted the provisions of FIN 48 on October 1, 2007. The cumulative effect of applying the provisions of this interpretation has been recorded as a decrease of \$7,036 to retained earnings, a decrease of \$3,963 to the income tax payable, a decrease of \$5,047 to deferred tax assets and an increase to the FIN 48 liability account of \$5,952 as of October 1, 2007. Refer to Note 8 for further discussion.

In June 2006, the FASB ratified Emerging Issues Task Force Issue 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF 06-2). Under EITF 06-2, compensation costs associated with a sabbatical should be accrued over the requisite service period, assuming certain conditions are met. Previously, the Company expensed sabbatical costs as incurred. The Company adopted EITF 06-2 effective October 1, 2007, as required and accordingly, we recorded a \$12,692 cumulative adjustment, net of tax, to decrease retained earnings on October 1, 2007. The annual impact to earnings of this accounting change is not expected to be significant.

### 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)	Three Months Ended December 31,	
	2007	2006
Cash provided by operating activities	\$ 13,567	\$ 15,548
Cash provided by (used in) investing activities	110,222	(5,821)
Cash (used in) provided by financing activities	(157,923)	2,944
Effect of exchange rates on cash	1,301	3,675
Net (decrease) increase in cash and cash equivalents	(32,833)	16,346
Cash and cash equivalents at beginning of period	378,743	138,928
Cash and cash equivalents at end of period	<u>\$ 345,910</u>	<u>\$155,274</u>

Working capital, defined as current assets less current liabilities, was \$491 million and \$535 million at December 31, 2007 and September 30, 2007, respectively.

The decrease in cash provided by operating activities was primarily due to a higher level of performance-based compensation offset by higher net income as compared to the prior-year period.

The increase in cash provided by investing activities was primarily due to increased proceeds from the sale of short-term investments offset by an increase in the purchase of short-term investments. The short-term investments were utilized to fund the higher 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 the proceeds from the exercise of stock options. The Company repurchased approximately 4.6 million of its outstanding shares at an average price of \$37.01, for a total of approximately \$170.4 million, during the current quarter.

At December 31, 2007 the Company had available credit facilities with domestic and foreign banks for various purposes. The amount of unused credit facilities as of December 31, 2007 was approximately \$222 million.

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, 2007 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 December 31, 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, 2007. 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 may 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 Securities and Exchange Commission (“SEC”).

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

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates. The Company has a substantial operation in India for the development and deployment of technology solutions as well as for client support activities. During the three months ended December 31, 2007, the Company initiated a foreign currency risk management program involving the use of foreign currency derivatives related to exposures in fluctuations in the Indian rupee and expects to hedge approximately 65% of future exposures. As of December 31, 2007, the Company was a party to foreign currency derivative instruments related to exposures in fluctuations in the Indian rupee for approximately 35% of forecasted transactions of approximately \$131 million for the next twelve months. A 10% change in the exchange rate on the related exposure will result in an increase or decrease of related expenses of approximately \$13 million. Consistent with the use of the derivatives to offset the effect of exchange rate fluctuations, such increases or decreases in expenses would be offset by corresponding gains or losses, respectively, of approximately \$5 million on settlement of the derivative instruments. For further information regarding our market risk, refer to our Annual Report on Form 10-K for the year ended September 30, 2007.

### **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 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 December 31, 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 its HR BPO clients to renegotiate the terms of their contracts. In December 2007, the Company reached settlement with one of these clients for \$15 million which was previously reserved. The Company paid this settlement during the first quarter. In addition, through the first quarter, the Company has recorded an additional charge of approximately \$6 million related to ongoing disputes and settlements with these clients.

The Company does not believe that any unresolved dispute 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.

## 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 December 31, 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>
October 1—31, 2007 <sup>(1)</sup>				
Class A	281,725	\$ 34.51	272,201	\$ 557,040,833
November 1—30, 2007 <sup>(1)</sup>				
Class A	2,146,678	\$ 36.34	2,146,382	\$ 479,040,719
December 1—31, 2007 <sup>(1)</sup>				
Class A	<u>2,184,619</u>	\$ 37.98	<u>2,184,619</u>	\$ 396,072,715
Total Shares Purchased:				
Class A	<u>4,613,022</u>	\$ 37.00	<u>4,603,202</u>	\$ 396,072,715

- (1) The shares purchased relate to 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 October 1, 2007 through December 31, 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 Form of Fiscal Year 2008 Performance Share Program Award Agreement (incorporated by reference to Current Report on Form 8-K dated December 3, 2007).
- 10.2 Form of Fiscal Year 2008 Stock Options Program Award Agreement (incorporated by reference to Current Report on Form 8-K dated December 3, 2007).
- 10.3 Form of Fiscal Year 2008 Director Equity Deferral Agreement (filed herewith).
- 10.4 Form of Fiscal Year 2008 Director Retainer Deferral Agreement (filed herewith).
- 10.5 Amended and Restated Global Stock and Incentive Compensation Plan (filed herewith).
- 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: February 7, 2008

By: /s/ John J. Park

John J. Park

Chief Financial Officer

(principal financial and accounting officer)

Hewitt Associates, Inc.  
Annual Equity Compensation  
2008 Deferral Election Agreement

Please complete this Annual Equity Compensation Deferral Election Agreement (Agreement) and return a signed copy to Margaret Kuretich no later than December 31, 2007.

Name: \_\_\_\_\_ SS#: \_\_\_\_\_

I do **not** wish to defer my **annual equity compensation, valued at \$80,000**, which will be earned and granted in 2008. I understand this is a voluntary election. (If you check this box, do not complete the remainder of this agreement—skip ahead to the bottom of the reverse side of this Agreement, date and sign, and return the Agreement as indicated above.)

\*\*\*\*\*

I hereby irrevocably elect to defer receipt of 100% of the shares related to my **annual equity compensation, valued at \$80,000**, which will be earned and granted in 2008. I understand that the amount deferred will be converted to Deferred Restricted Stock Units (DRSUs) and will be subject to the terms and provisions outlined in this Agreement in the manner set forth below. *(If you check this box, please complete all sections of this Agreement, date and sign at the bottom of the reverse side, and return the Agreement as indicated above.)*

**Settlement Date**

In making this election, the following rules apply:

- You must elect the Settlement Dates as of which your DRSUs will be converted to actual Shares of stock and issued to you.
- The settlement of any vested DRSUs will commence upon termination or retirement from the Board, in the manner you select below.
- You may elect to receive your Shares in a single lump sum or in installments over two or three years.

I hereby irrevocably elect the following form of settlement for my DRSUs:

- 100% lump-sum payout upon termination or retirement from the Board;
- Two equal annual installments commencing upon termination from the Board; or
- Three equal annual installments commencing upon termination from the Board.

### Manner of Transfer

All deferrals to a particular Settlement Date will be paid out in Shares. All of the Shares you are entitled to receive on the Settlement Date(s) specified in this Agreement will be transferred to you on such Settlement Date(s).

### Terms and Conditions

By signing this form, you hereby acknowledge your understanding and acceptance of the following:

1. **Vesting.** In accordance with the terms of the Plan, the Units shall vest one hundred percent (100%) on the first anniversary of the award date, provided you have continued on Hewitt's Board of Directors through such anniversary.
2. **Withholding.** The Company shall have the right to deduct from all deferrals or payments hereunder, any federal, state, or local tax required by law to be withheld.
3. **Nonassignable.** Your rights and interests under this Deferral Election Agreement may not be assigned, pledged, or transferred other than as provided in the Hewitt Associates, Inc. Global Stock and Incentive Compensation Plan.
4. **Termination of This Agreement.** The Company reserves the right to terminate this Agreement at any time. In such case, any undistributed DRSUs which are subject to the Deferral Election Agreement and not otherwise payable during the first twelve months following the termination of the Agreement shall be converted into Shares and will be transferred to you during the second twelve month period following the termination of the Agreement.
5. **Bookkeeping Account.** The Company will establish a bookkeeping account to reflect the number of DRSUs that are subject to this Agreement and shall maintain a record of the cash or other amounts that were converted to DRSUs pursuant to this Agreement.
6. **Retail Broker Account:** The payment of Shares pursuant to this Agreement shall be issued electronically to an account in your name, managed by the then Plan administrator, as of the applicable Settlement Dates (or normal retainer payment date). Subject to the withholding requirements outlined above, this electronic entry representing the unrestricted Shares will be delivered to you as soon as practicable after the Settlement Date.
7. **Dividends.** In the event cash dividends and/or other distributions are paid with respect to actual Shares outstanding, your Bookkeeping Account will be credited with additional DRSUs equal to the total value you would have received if your undistributed DRSUs had been Shares divided by the Fair Market Value of a Share on the date the dividend or distribution would otherwise have been paid.
8. **Change in Control.** Upon a Change in Control that qualifies as a change in control as defined under Code Section 409A or guidance thereto, all of your undistributed DRSUs shall be converted into Shares of the Company. Such Shares shall be distributed to you as soon as practicable following the Change in Control.
9. **Governing Law.** This Agreement shall be construed and administered according to the laws of the State of Illinois.
10. **Defined Terms.** All capitalized terms not defined in this Agreement are defined in the Hewitt Associates, Inc. Global Stock and Incentive Compensation Plan.

By executing this Agreement, I hereby acknowledge my understanding of and agreement with all the terms and provisions set forth in this Hewitt Associate, Inc. Annual Equity Compensation Deferral Election Agreement.

Director

Hewitt Associates, Inc.

By: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**Hewitt Associates, Inc.  
Annual Retainer  
2008 Deferral Election Agreement**

**Please complete this Annual Retainer Deferral Election Agreement (Agreement) and return a signed copy to Margaret Kuretich no later than December 31, 2007.**

Name:

SS#:

- I do **not** wish to defer my **\$75,000 annual retainer** that will be earned and paid in 2008 and choose to receive payment as indicated below:

\_\_\_\_ I wish to receive my annual retainer in cash.

\_\_\_\_ I wish to receive my annual retainer in Hewitt common stock (Shares) based on the Fair Market Value of Hewitt Stock on the date the retainer would have otherwise been paid in cash.

I understand this is a voluntary election.

*(If you check this box and select a current payment in cash or stock, do not complete the remainder of this agreement—skip ahead to the bottom of the reverse side of this Agreement, date and sign, and return the Agreement as indicated above.)*

\*\*\*\*\*

- I hereby irrevocably elect to defer 100% of my **\$75,000 annual retainer** that will be earned in 2008. I understand that the amount deferred will be converted to Deferred Stock Units (DSUs) based on the Fair Market Value of Hewitt Stock as of the date the retainer would have otherwise been paid and will be subject to the terms and provisions outlined in this Agreement in the manner set forth below. *(If you check this box, please complete the following sections of this Agreement, date and sign at the bottom of the reverse side, and return the Agreement as indicated above.)*

**Settlement Date(s)**

In making this election, the following rules apply:

- You must elect the Settlement Date as of which your DSUs will be converted to actual Shares of stock and issued to you.
- The settlement of any vested DSUs will commence upon termination or retirement from the Board, in the manner you select below.
- You may elect to receive your Shares in a single lump sum or in installments over two or three years.

I hereby irrevocably elect the following form of settlement for my DSUs:

- 100% lump-sum payout upon termination or retirement from the Board;
- Two equal annual installments commencing upon termination from the Board; or
- Three equal annual installments commencing upon termination from the Board.

### Manner of Transfer

All deferrals to a particular Settlement Date will be paid out in Shares. All of the Shares you are entitled to receive on the Settlement Date(s) specified in this Agreement will be transferred to you on such Settlement Date(s).

### Terms and Conditions

By signing this form, you hereby acknowledge your understanding and acceptance of the following:

1. **Withholding.** The Company shall have the right to deduct from all deferrals or payments hereunder, any federal, state, or local tax required by law to be withheld.
2. **Nonassignable.** Your rights and interests under this Deferral Election Agreement may not be assigned, pledged, or transferred other than as provided in the Hewitt Associates, Inc. Global Stock and Incentive Compensation Plan.
3. **Termination of This Agreement.** The Company reserves the right to terminate this Agreement at any time. In such case, any undistributed DSUs which are subject to the Deferral Election Agreement and not otherwise payable during the first twelve months following the termination of the Agreement shall be converted into Shares and will be transferred to you during the second twelve month period following the termination of the Agreement.
4. **Bookkeeping Account.** The Company will establish a bookkeeping account to reflect the number of DSUs that are subject to this Agreement and shall maintain a record of the cash or other amounts that were converted to DSUs pursuant to this Agreement.
5. **Retail Broker Account:** The payment of Shares pursuant to this Agreement shall be issued electronically to an account in your name, managed by the then Plan administrator, as of the applicable Settlement Dates (or normal retainer payment date). Subject to the withholding requirements outlined above, this electronic entry representing the unrestricted Shares will be delivered to you as soon as practicable after the Settlement Date.
6. **Dividends.** In the event cash dividends and/or other distributions are paid with respect to actual Shares outstanding, your Bookkeeping Account will be credited with additional DSUs equal to the total value you would have received if your undistributed DSUs had been Shares divided by the Fair Market Value of a Share on the date the dividend or distribution would otherwise have been paid.
7. **Change in Control.** Upon a Change in Control that qualifies as a change in control as defined under Code Section 409A or guidance thereto, all of your undistributed DSUs shall be converted into Shares of the Company. Such Shares shall be distributed to you as soon as practicable following the Change in Control.
8. **Governing Law.** This Agreement shall be construed and administered according to the laws of the State of Illinois.
9. **Defined Terms.** All capitalized terms not defined in this Agreement are defined in the Hewitt Associates, Inc. Global Stock and Incentive Compensation Plan.

By executing this Agreement, I hereby acknowledge my understanding of and agreement with all the terms and provisions set forth in this Hewitt Associates, Inc. Annual Retainer Deferral Election Agreement.

Director

Hewitt Associates, Inc.

\_\_\_\_\_  
Date: \_\_\_\_\_

By: \_\_\_\_\_  
Date: \_\_\_\_\_

**Amended and Restated Global Stock and Incentive Compensation Plan**

Hewitt Associates, Inc.

Effective June 17, 2002

Amended October 31, 2006

Amended and Restated November 7, 2007

## **Contents**

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## **Hewitt Associates, Inc. Amended and Restated Global Stock and Incentive Compensation Plan**

### **Article 1. Establishment, Purpose, and Duration**

**1.1 Establishment.** Hewitt Associates, Inc., a Delaware corporation (hereinafter referred to as the “Company”), establishes an amended and restated incentive compensation plan to be known as the Amended and Restated Global Stock and Incentive Compensation Plan (hereinafter referred to as the “Plan”), as set forth in this document.

The Plan permits the grant of Annual Management Incentive Awards, Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights (“SARs”), Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, and Cash-Based Awards.

The Plan became effective as of June 17, 2002 (the “Effective Date”), was amended as of October 31, 2006 and, subject to stockholder approval, amended and restated as of November 7, 2008, and shall remain in effect as provided in Section 1.3 hereof.

**1.2 Purpose of the Plan.** The purpose of the Plan is to promote the long-term interests of the Company and its stockholders by strengthening the Company’s ability to attract, motivate, and retain Employees and Directors of the Company upon whose judgment, initiative, and efforts the financial success and growth of the business of the Company largely depend, and to provide an additional incentive for such individuals through stock ownership and other rights that promote and recognize the financial success and growth of the Company and create value for stockholders.

**1.3 Duration of the Plan.** The Plan commenced as of the Effective Date, as described in Section 1.1 hereof, and shall remain in effect, subject to the right of the Board of Directors to amend or terminate the Plan at any time pursuant to Article 17 hereof, until all Shares subject to it shall have been purchased or acquired according to the Plan’s provisions.

### **Article 2. Definitions**

Whenever used in the Plan, the following terms shall have the meanings set forth below, and when the meaning is intended, the initial letter of the word shall be capitalized.

- 2.1 “Affiliate”** shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations of the Exchange Act.
- 2.2 “Annual Management Incentive Award”** means an Award granted to a Participant as described in Article 12 herein.
- 2.3 “Award”** means, individually or collectively, a grant under this Plan of Annual Management Incentive Awards, Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, or Cash-Based Awards.

- 2.4 “Award Agreement”** means either (i) an agreement entered into by the Company and each Participant setting forth the terms and provisions applicable to Awards granted under this Plan, or (ii) a statement issued by the Company to a Participant describing the terms and provisions of such Award.
- 2.5 “Beneficial Owner” or “Beneficial Ownership”** shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.
- 2.6 “Board” or “Board of Directors”** means the Board of Directors of the Company.
- 2.7 “Cash-Based Award”** means an Award granted to a Participant as described in Article 10 herein.
- 2.8 “Change in Control”** shall occur if any of the following events occur:
- (a) The acquisition by any individual, entity, or group of Beneficial Ownership of thirty percent (30%) or more of the combined voting power of the Company’s then outstanding securities with respect to the election of Directors of the Company;
  - (b) The consummation of a reorganization, merger, or consolidation of the Company or sale or other disposition of all or substantially all of the assets of the Company (a “Corporate Transaction”); excluding, however, a Corporate Transaction pursuant to which all or substantially all of the individuals or entities who are the Beneficial Owners of the Company immediately prior to the Corporate Transaction will beneficially own, directly or indirectly, more than sixty percent (60%) of the outstanding shares of common stock of the resulting entity and of the combined voting power of the outstanding securities entitled to vote for the election of directors of such entity; or
  - (c) Individuals who, as of the Effective Date, constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of such Board; provided, that any individual who becomes a Director of the Company subsequent to the Effective Date, whose election, or nomination for election by the Company’s stockholders, was approved by the vote of at least a majority of the Directors then comprising the Incumbent Board shall be deemed a member of the Incumbent Board; and provided further, that any individual who was initially elected as a Director of the Company as a result of an actual or threatened election contest, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, or any other actual or threatened solicitation of proxies or consents by or on behalf of any Person other than the Board shall not be deemed a member of the Incumbent Board.
- 2.9 “Code”** means the U.S. Internal Revenue Code of 1986, as amended from time to time.
- 2.10 “Committee”** means any Committee appointed by the Board to administer Awards to Participants, as specified in Article 3 herein.

- 2.11 “Company”** means Hewitt Associates, Inc., a Delaware corporation, and any successor thereto as provided in Article 20 herein.
- 2.12 “Covered Employee”** means a Participant who is a “covered employee,” as defined in Code Section 162(m) and the regulations promulgated under Code Section 162(m), or any successor statute.
- 2.13 “Director”** means any individual who is a member of the Board of Directors of the Company; provided, however, that such Director is not an Employee of the Company.
- 2.14 “Employee”** means any Employee of the Company, its Affiliates and/or Subsidiaries.
- 2.15 “Exchange Act”** means the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.
- 2.16 “Fair Market Value”** means a price to be determined by the Committee, that is at or within the range of the high and low selling prices of a Share on the New York Stock Exchange on the date in question or, if no sales of Shares were made on said exchange on such date, on the next preceding day on which sales were made on such exchange; provided, that for purposes of determining the Option Price with respect to a grant on the date of the Company’s initial public offering of Shares, “Fair Market Value” shall mean the initial public offering price per Share negotiated between the Company and its underwriter(s).
- 2.17 “Fiscal Year”** means the year commencing on October 1 and ending September 30, or other time period as approved by the Board.
- 2.18 “Freestanding SAR”** means an SAR that is granted independently of any Options, as described in Article 7 herein.
- 2.19 “Incentive Stock Option” or “ISO”** means an Option to purchase Shares granted under Article 6 herein and that is designated as an Incentive Stock Option and that is intended to meet the requirements of Code Section 422, or any successor provision.
- 2.20 “Insider”** shall mean an individual who is, on the relevant date, an officer, Director, or more than ten percent (10%) Beneficial Owner of any class of the Company’s equity securities that is registered pursuant to Section 12 of the Exchange Act, as determined by the Board in accordance with Section 16 of the Exchange Act.
- 2.21 “Nonqualified Stock Option” or “NQSO”** means an Option that is not intended to meet the requirements of Code Section 422, or that otherwise does not meet such requirements.
- 2.22 “Option”** means an Incentive Stock Option or a Nonqualified Stock Option, as described in Article 6 herein.
- 2.23 “Option Price”** means the price at which a Share may be purchased by a Participant pursuant to an Option.

- 2.24 **“Participant”** means an Employee or Director who has been selected to receive an Award or who has an outstanding Award granted under the Plan.
- 2.25 **“Performance-Based Compensation”** means the Award is qualified as Performance-Based Compensation under Code Section 162(m).
- 2.26 **“Performance Measures”** means measures as described in Article 11, the attainment of which may determine the degree of payout and/or vesting with respect to Awards to Covered Employees that are designated to qualify as Performance-Based Compensation.
- 2.27 **“Performance Period”** means the period of time during which the performance goals must be met in order to determine the degree of payout and/or vesting with respect to an Award.
- 2.28 **“Performance Share”** means an Award granted to a Participant, as described in Article 9.
- 2.29 **“Performance Unit”** means an Award granted to a Participant, as described in Article 9.
- 2.30 **“Person”** shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof.
- 2.32 **“Restricted Stock”** means an Award granted to a Participant pursuant to Article 8 herein.
- 2.33 **“Restricted Stock Unit”** means an Award granted to a Participant pursuant to Article 8 herein.
- 2.34 **“Shares”** means the Class A common stock of the Company, \$.01 par value per share.
- 2.35 **“Stock Appreciation Right”** or **“SAR”** means an Award, designated as an SAR, pursuant to the terms of Article 7 herein.
- 2.36 **“Subsidiary”** means any corporation, partnership, joint venture, limited liability company, or other entity (other than the Company) in an unbroken chain of entities beginning with the Company if, at the time of the granting of an Award, each of the entities other than the last entity in the unbroken chain owns at least twenty percent (20%) of the total combined voting power in one of the other entities in such chain.
- 2.37 **“Vesting Period”** means the period when Awards are subject to forfeiture based on the passage of time, the achievement of performance goals, or upon the occurrence of other events as determined by the Board, at its discretion.

### Article 3. Administration

**3.1 General.** The Board shall be responsible for administering the Plan. The Board may employ attorneys, consultants, accountants, and other persons, and the Board, the Company, and its officers and Directors shall be entitled to rely upon the advice, opinions, or valuations of any such persons. All actions taken and all interpretations and determinations made by the Board in good faith shall be final and binding upon the Participants, the Company, and all other interested persons.

**3.2 Authority of the Board.** The Board shall have full and exclusive discretionary power to interpret the Plan and to determine eligibility for Awards and to adopt such rules, regulations, and guidelines for administering the Plan as the Board may deem necessary or proper. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions and, subject to Article 17, adopting modifications and amendments to the Plan or any Award Agreement, including without limitation, any that are necessary to comply with the laws of the countries in which the Company, its Affiliates, and/or its Subsidiaries operate.

**3.3 Delegation.** The Board may delegate to a Committee any or all of the administration of the Plan. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board. To the extent that the Board has delegated to the Committee any authority and responsibility under the Plan, all applicable references to the Board in the Plan shall be to the Committee. The Board may delegate to one or more of its members or to one or more agents or advisors such nondiscretionary administrative duties as it may deem advisable, and the Board or any person to whom it has delegated duties as aforesaid may employ one or more persons to render advice with respect to any responsibility the Board or such person may have under the Plan. The Board may, by resolution, authorize one or more officers of the Company to do one or both of the following: (a) designate officers and Employees of the Company, its Affiliates, and/or its Subsidiaries to be recipients of Awards; and (b) determine the size of the Award; provided, however, that the resolution providing such authorization sets forth the total number of Awards such officer or officers may grant.

#### **Article 4. Shares Subject to the Plan and Maximum Awards**

**4.1 Number of Shares Available for Awards.** Subject to adjustment as provided in Section 4.2 herein, the number of Shares hereby reserved for issuance to Participants under the Plan shall be thirty-two million (32,000,000). All of the reserved Shares may be used as ISOs. Any Shares of common stock related to Awards which terminate by expiration, forfeiture, cancellation, or otherwise without the issuance of such Shares, are settled in cash in lieu of common stock, or are exchanged with the Board's permission for Awards not involving common stock, shall be available again for grant under the Plan. Moreover, if the Option Price of any Option granted under the Plan or the tax withholding requirements with respect to any Award granted under the Plan are satisfied by tendering Shares of common stock to the Company (by either actual delivery or by attestation), only the number of Shares of common stock issued net of the Shares of common stock tendered will be deemed delivered for purposes of determining the maximum number of Shares of common stock available for delivery under the Plan. The maximum number of Shares available for issuance under the Plan shall not be reduced to reflect any dividends or dividend equivalents that are reinvested into additional Shares of common stock or credited as additional Restricted Stock, Restricted Stock Units, or Performance Shares. In addition, the Board, in its discretion, may establish any other appropriate methodology for calculating the number of Shares issued pursuant to the Plan. The Shares of common stock available for issuance under the Plan may be authorized and unissued Shares or treasury Shares.

Unless and until the Board determines that an Award to a Covered Employee shall not be designed to qualify as Performance-Based Compensation, the following limits (“Award Limits”) shall apply to grants of such Awards under the Plan:

- (a) **Options:** The maximum aggregate number of Shares that may be granted in the form of Options, pursuant to any Award granted in any one Fiscal Year to any one Participant shall be one million (1,000,000).
- (b) **SARs:** The maximum number of Shares that may be granted in the form of Stock Appreciation Rights, pursuant to any Award granted in any one Fiscal Year to any one Participant shall be five hundred thousand (500,000).
- (c) **Restricted Stock/Restricted Stock Units:** The maximum aggregate grant with respect to Awards of Restricted Stock/Restricted Stock Units granted in any one Fiscal Year to any one Participant shall be five hundred thousand (500,000).
- (d) **Performance Units/Performance Shares:** The maximum aggregate Award of Performance Units or Performance Shares that a Participant may receive in any one Fiscal Year shall be five hundred thousand (500,000) Shares, or equal to the value of five hundred thousand (500,000) Shares determined as of the date of vesting or payout, as applicable.
- (e) **Cash-Based Awards:** The maximum aggregate amount awarded or credited with respect to Cash-Based Awards to any one Participant in any one Fiscal Year may not exceed three million dollars (\$3,000,000) determined as of the date of vesting or payout, as applicable.
- (f) **Annual Management Incentive Award.** The maximum aggregate amount awarded or credited in any one Fiscal Year with respect to an Annual Management Incentive Award to a Participant who is a Covered Employee shall be determined in accordance with Article 12. The maximum aggregate amount awarded or credited in any one Fiscal Year with respect to an Annual Management Incentive Award to a Participant who is not a Covered Employee shall be determined by the Board in its discretion.

**4.2 Adjustments in Authorized Shares.** In the event of any corporate event or transaction (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, stock split, reverse stock split, split up, spin-off, or other distribution of stock or property of the Company, combination of shares, exchange of shares, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to stockholders of the Company, or any similar corporate event or transaction, the Board, in order to prevent dilution or enlargement of Participants’ rights under the Plan, shall substitute or adjust, in an equitable manner, as applicable, the number and kind of Shares that may be issued under the Plan, the number and kind of Shares subject to outstanding Awards, the Option Price applicable to outstanding Awards, the Award Limits, and other value determinations applicable to outstanding Awards.

Appropriate adjustments may also be made by the Board in the terms of any Awards under the Plan to reflect such changes or distributions and to modify any other terms of outstanding Awards on an equitable basis, including modifications of performance goals and changes in the length of Performance Periods. The determination of the Board as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

Subject to the provisions of Article 16, without affecting the number of Shares reserved or available hereunder the Board may authorize the issuance or assumption of benefits under this Plan in connection with any merger, consolidation, acquisition of property or stock, or reorganization upon such terms and conditions as it may deem appropriate.

It is intended that any adjustment made by the Committee under this Section 4.2 will not result in the additional tax imposed under Code Section 409A.

## **Article 5. Eligibility and Participation**

**5.1 Eligibility.** Persons eligible to participate in this Plan include all Employees and Directors.

**5.2 Actual Participation.** Subject to the provisions of the Plan, the Board may, from time to time, select from all eligible Employees and Directors, those to whom Awards shall be granted and shall determine the nature and amount of each Award.

## **Article 6. Stock Options**

**6.1 Grant of Options.** Subject to the terms and provisions of the Plan, Options may be granted to Participants in such number, and upon such terms, and at any time and from time to time as shall be determined by the Board, provided that ISOs shall not be granted to Directors. In addition, ISOs may not be granted following the ten-year anniversary of shareholder approval of the Plan, as amended, on January 30, 2008.

It is intended that Options will not be granted if doing so would result in the additional tax imposed under Code Section 409A.

**6.2 Award Agreement.** Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, the conditions upon which an Option shall become vested and exercisable, and such other provisions as the Board shall determine which are not inconsistent with the terms of the Plan. The Award Agreement also shall specify whether the Option is intended to be an ISO or an NQSO.

**6.3 Option Price.** The Option Price for each grant of an Option under this Plan shall be as determined by the Board; provided, however, the Option Price shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares on the date the Option is granted. Notwithstanding the foregoing, for Options granted to Participants outside the United States who are non-U.S. taxpayers, the Board has the authority to grant Options at a price that is less than the Fair Market Value of the Shares on the date of grant.

**6.4 Duration of Options.** Each Option granted to a Participant shall expire at such time as the Board shall determine at the time of grant; provided, however, no Option shall be exercisable later than the tenth (10<sup>th</sup>) anniversary date of its grant. Notwithstanding the foregoing, for Options granted to Participants outside the United States, the Board has the authority to grant Options that have a term greater than ten years.

**6.5 Exercise of Options.** Options granted under this Article 6 shall be exercisable at such times and be subject to such restrictions and conditions as the Board shall in each instance approve, which need not be the same for each grant or for each Participant.

**6.6 Payment.** Options granted under this Article 6 shall be exercised by the delivery of a written notice of exercise to the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

The Option Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash or its equivalent, (b) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares that are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price or have been purchased on the open market), (c) by a combination of (a) and (b), or (d) any other method approved by the Board in its sole discretion at the time of grant and as set forth in the Award Agreement.

The Board also may allow cashless exercise as permitted under the Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Board determines to be consistent with the Plan's purpose and applicable law.

Subject to any governing rules or regulations, as soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, Share certificates or evidence of book entry Shares, in an appropriate amount based upon the number of Shares purchased under the Option(s).

Unless otherwise determined by the Board, all payments under all of the methods indicated above shall be paid in United States dollars.

**6.7 Restrictions on Share Transferability.** The Board may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under this Article 6 as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

**6.8 Termination of Employment/Directorship.** Each Participant's Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following termination of the Participant's employment or directorship with the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Board, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Options issued pursuant to this Article 6, and may reflect distinctions based on the reasons for termination.

## **6.9 Transferability of Options.**

- (a) **Incentive Stock Options.** No ISO granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all ISOs granted to a Participant under this Article 6 shall be exercisable during his or her lifetime only by such Participant.
- (b) **Nonqualified Stock Options.** Except as otherwise provided in a Participant's Award Agreement, no NQSO granted under this Article 6 may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, all NQSOs granted to a Participant under this Article 6 shall be exercisable during his or her lifetime only by such Participant.

**6.10 Notification of Disqualifying Disposition.** If any Participant shall make any disposition of Shares issued pursuant to the exercise of an Incentive Stock Option under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten (10) days thereof.

## **Article 7. Stock Appreciation Rights**

**7.1 Grant of SARs.** Subject to the terms and conditions of the Plan, Freestanding SARs may be granted to Participants at any time and from time to time as shall be determined by the Board.

It is intended that SARs will not be granted if doing so would result in the additional tax imposed under Code Section 409A.

Subject to the terms and conditions of the Plan, the Board shall have complete discretion in determining the number of SARs granted to each Participant and, consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such SARs.

The grant price of a Freestanding SAR shall be no less than the Fair Market Value of a Share on the date of grant of the SAR. Notwithstanding the foregoing, for SARs granted to Participants outside the United States who are non-U.S. taxpayers, the Board has the authority to grant SARs at a price that is less than the Fair Market Value of a Share on the date of grant.

**7.2 SAR Agreement.** Each SAR Award shall be evidenced by an Award Agreement that shall specify the grant price, the term of the SAR, and such other provisions as the Board shall determine.

**7.3 Term of SARs.** The term of an SAR granted under the Plan shall be determined by the Board, in its sole discretion, and except as determined otherwise by the Board and specified in the SAR Award Agreement, no SAR shall be exercisable later than the tenth (10<sup>th</sup>) anniversary date of its grant. Notwithstanding the foregoing, for SARs granted to Participants outside the United States, the Board has the authority to grant SARs that have a term greater than ten years.

**7.4 Exercise of Freestanding SARs.** Freestanding SARs may be exercised upon whatever terms and conditions the Board, in its sole discretion, imposes upon them.

**7.5 Payment of SAR Amount.** Upon the exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (a) The difference between the Fair Market Value of a Share on the date of exercise over the grant price; by
- (b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Board, the payment upon SAR exercise may be in cash, in Shares of equivalent value, in some combination thereof, or in any other manner approved by the Board at its sole discretion. The Board's determination regarding the form of SAR payout shall be set forth in the Award Agreement pertaining to the grant of the SAR.

**7.6 Termination of Employment/Directorship.** Each Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following termination of the Participant's employment or directorship with the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Board, shall be included in the Award Agreement entered into with Participants, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**7.7 Nontransferability of SARs.** Except as otherwise provided in a Participant's Award Agreement, no SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

## **Article 8. Restricted Stock and Restricted Stock Units**

**8.1 Grant of Restricted Stock/Units.** Subject to the terms and provisions of the Plan, the Board, at any time and from time to time, may grant Shares of Restricted Stock and/or Restricted Stock Units to Participants in such amounts as the Board shall determine. Restricted Stock Units shall be similar to Restricted Stock except that no Shares are actually awarded to the Participant on the date of grant.

**8.2 Restricted Stock/Unit Agreement.** Each Restricted Stock and/or Restricted Stock Unit grant shall be evidenced by an Award Agreement that shall specify the Period(s) of Restriction, the number of Shares of Restricted Stock or the number of Restricted Stock Units granted, the time and form of settlement, and such other provisions as the Board shall determine.

**8.3 Transferability.** Except as provided in this Article 8, the Shares of Restricted Stock and/or Restricted Stock Units granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Vesting Period established by the Board and specified in the Award Agreement (and in the case of Restricted Stock Units until the date of delivery or other payment), or upon earlier satisfaction of any other conditions, as specified by the Board in its sole discretion and set forth in the Award Agreement. All rights with respect to the Restricted Stock and/or Restricted Stock Units granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

**8.4 Other Restrictions.** The Board shall impose such other conditions and/or restrictions on any Shares of Restricted Stock or Restricted Stock Units granted pursuant to the Plan as it may deem advisable including, without limitation, a requirement that Participants pay a stipulated purchase price for each Share of Restricted Stock or each Restricted Stock Unit, restrictions based upon the achievement of specific performance goals, time-based restrictions on vesting following the attainment of the performance goals, time-based restrictions, and/or restrictions under applicable federal or state securities laws.

To the extent deemed appropriate by the Board, the Company may retain the certificates representing Shares of Restricted Stock in the Company's possession until such time as all conditions and/or restrictions applicable to such Shares have been satisfied or lapse.

Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock Award shall become freely transferable by the Participant after all conditions and restrictions applicable to such Shares have been satisfied or lapse, and Restricted Stock Units shall be paid in cash, Shares, or a combination of cash and Shares as the Board, in its sole discretion shall determine.

**8.5 Voting Rights.** To the extent permitted or required by law, as determined by the Board, Participants holding Shares of Restricted Stock granted hereunder may be granted the right to exercise full voting rights with respect to those Shares during the Vesting Period. A Participant shall have no voting rights with respect to any Restricted Stock Units granted hereunder.

**8.6 Dividends and Other Distributions.** During the Vesting Period, Participants holding Shares of Restricted Stock or Restricted Stock Units granted hereunder may, if the Board so determines, be credited with dividends paid with respect to the underlying Shares or dividend equivalents while they are so held in a manner determined by the Board in its sole discretion. The Board may apply any restrictions to the dividends or dividend equivalents that the Board deems appropriate. The Board, in its sole discretion, may determine the form of payment of dividends or dividend equivalents, including cash, Shares, Restricted Stock, or Restricted Stock Units.

**8.7 Termination of Employment/Directorship.** Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Restricted Stock and/or Restricted Stock Units following termination of the Participant's employment or directorship with the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Board, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Shares of Restricted Stock or Restricted Stock Units issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**8.8 Section 83(b) Election.** The Board may provide in an Award Agreement that the Award of Restricted Stock is conditioned upon the Participant making or refraining from making an election with respect to the Award under Section 83(b) of the Code. If a Participant makes an election pursuant to Section 83(b) of the Code concerning a Restricted Stock Award, the Participant shall be required to promptly file a copy of such election with the Company.

## **Article 9. Performance Units/Performance Shares**

**9.1 Grant of Performance Units/Performance Shares.** Subject to the terms of the Plan, Performance Units and/or Performance Shares may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Board.

**9.2 Value of Performance Units/Performance Shares.** Each Performance Unit shall have an initial value that is established by the Board at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Board shall set performance goals in its discretion which, depending on the extent to which they are met, will determine the value and/or number of Performance Units/Performance Shares that will be paid out to the Participant.

**9.3 Earning of Performance Units/Performance Shares.** Subject to the terms of this Plan, after the applicable Performance Period has ended, the holder of Performance Units/Performance Shares shall be entitled to receive payout on the value and number of Performance Units/Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance goals have been achieved.

**9.4 Form and Timing of Payment of Performance Units/Performance Shares.** Payment of earned Performance Units/Performance Shares shall be as determined by the Board and as evidenced in the Award Agreement. Subject to the terms of the Plan, the Board, in its sole discretion, may pay earned Performance Units/Performance Shares in the form of cash or in Shares (or in a combination thereof) equal to the value of the earned Performance Units/Performance Shares at the close of the applicable Performance Period. Any Shares may be granted subject to any restrictions deemed appropriate by the Board. The determination of the Board with respect to the time and form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

**9.5 Dividends and Other Distributions.** At the discretion of the Board, Participants holding Performance Shares may be entitled to receive dividend equivalents with respect to dividends declared with respect to the Shares. Such dividends may be subject to the accrual, forfeiture, or payout restrictions as determined by the Board in its sole discretion.

**9.6 Termination of Employment/Directorship.** Each Award Agreement shall set forth the extent to which the Participant shall have the right to retain Performance Units and/or Performance Shares following termination of the Participant's employment or directorship with the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Board, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Performance Units or Performance Shares issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**9.7 Nontransferability.** Except as otherwise provided in a Participant's Award Agreement, Performance Units/Performance Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant.

## **Article 10. Cash-Based Awards**

**10.1 Grant of Cash-Based Awards.** Subject to the terms of the Plan, Cash-Based Awards may be granted to Participants in such amounts and upon such terms, and at any time and from time to time, as shall be determined by the Board.

**10.2 Value of Cash-Based Awards.** Each Cash-Based Award shall have a value as may be determined by the Board. The Board may establish performance goals in its discretion. If the Board exercises its discretion to establish performance goals, the number and/or value of Cash-Based Awards that will be paid out to the Participant will depend on the extent to which the performance goals are met.

**10.3 Earning of Cash-Based Awards.** Subject to the terms of this Plan, the holder of Cash-Based Awards shall be entitled to receive payout on the number and value of Cash-Based Awards earned by the Participant, to be determined as a function of the extent to which applicable performance goals, if any, have been achieved.

**10.4 Form and Timing of Payment of Cash-Based Awards.** Payment of earned Cash-Based Awards shall be as determined by the Board and as evidenced in the Award Agreement. Subject to the terms of the Plan, the Board, in its sole discretion, may pay earned Cash-Based Awards in the form of cash or in Shares (or in a combination thereof) that have an aggregate Fair Market Value equal to the value of the earned Cash-Based Awards. Such Shares may be granted subject to any restrictions deemed appropriate by the Board. The determination of the Board with respect to the time and form of payout of such Awards shall be set forth in the Award Agreement pertaining to the grant of the Award.

**10.5 Termination of Employment/Directorship.** Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive Cash-Based Awards following termination of the Participant's employment or directorship with the Company, its Affiliates, and/or its Subsidiaries, as the case may be. Such provisions shall be determined in the sole discretion of the Board, shall be included in the Award Agreement entered into with each Participant, need not be uniform among all Awards of Cash-Based Awards issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

**10.6 Nontransferability.** Except as otherwise provided in a Participant's Award Agreement, Cash-Based Awards may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, except as otherwise provided in a Participant's Award Agreement, a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant.

## **Article 11. Performance Measures**

Unless and until the Board proposes for stockholder vote and the stockholders approve a change in the general Performance Measures set forth in this Article 11, the performance goals upon which the payment or vesting of an Award to a Covered Employee (other than an Annual Management Incentive Award awarded or credited pursuant to Article 12) that is intended to qualify as Performance-Based Compensation shall be limited to the following Performance Measures:

- (a) Net earnings;

- (b) Earnings per share;
- (c) Net sales growth;
- (d) Net income (before or after taxes);
- (e) Net operating profit;
- (f) Return measures (including, but not limited to, return on assets, capital, equity, or sales);
- (g) Cash flow (including, but not limited to, operating cash flow and free cash flow);
- (h) Cash flow return on capital;
- (i) Earnings before or after taxes, interest, depreciation, and/or amortization;
- (j) Gross or operating margins;
- (k) Productivity ratios;
- (l) Share price (including, but not limited to, growth measures and total stockholder return);
- (m) Expense targets; and
- (n) Working capital targets.

Any Performance Measure(s) may be used to measure the performance of the Company as a whole or any business unit of the Company or any combination thereof, as the Board may deem appropriate, or any of the above Performance Measures as compared to the performance of a group of comparator companies, or published or special index that the Board, in its sole discretion, deems appropriate, or the Company may select Performance Measure (l) above as compared to various stock market indices. The Board also has the authority to provide for accelerated vesting of any Award based on the achievement of performance goals pursuant to the Performance Measures specified in this Article 11.

The Board may provide in any such Award that any evaluation of performance may include or exclude any of the following events that occurs during a Performance Period: (a) asset write-downs, (b) litigation or claim judgments or settlements, (c) the effect of changes in tax laws, accounting principles, or other laws or provisions affecting reported results, (d) accruals for reorganization and restructuring programs, (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's annual report to stockholders for the applicable year, (f) acquisitions or divestitures, and (g) foreign exchange gains and losses. To the extent such inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that meets the requirements of Code Section 162(m) for deductibility.

Awards that are designed to qualify as Performance-Based Compensation, and that are held by Covered Employees, may not be adjusted upward (the Board shall retain the discretion to adjust such Awards downward).

In the event that applicable tax and/or securities laws change to permit Board discretion to alter the governing Performance Measures without obtaining stockholder approval of such changes, the Board shall have sole discretion to make such changes without obtaining stockholder approval, provided the exercise of such discretion does not violate Code Section 409A. In addition, in the event that the Board determines that it is advisable to grant Awards that shall not qualify as Performance-Based Compensation, the Board may make such grants without satisfying the requirements of Code Section 162(m).

## **Article 12. Annual Management Incentive Awards**

The Board may designate Company executive officers who are eligible to receive a monetary payment in any Fiscal Year based on a percentage of an incentive pool equal to five percent (5%) of the Company's consolidated operating earnings for the Fiscal Year. The Board shall allocate an incentive pool percentage to each designated Participant for each Fiscal Year. In no event may the incentive pool percentage for any one Participant exceed thirty percent (30%) of the total pool. Consolidated operating earnings shall mean the consolidated earnings before income taxes of the Company, computed in accordance with generally accepted accounting principles, but shall exclude the effects of Extraordinary Items.

For purposes of this Article 12, "Extraordinary Items" shall mean (i) extraordinary, unusual, and/or nonrecurring items of gain or loss; (ii) gains or losses on the disposition of a business; (iii) changes in tax or accounting regulations or laws; or (iv) the effect of a merger or acquisition, all of which must be identified in the audited financial statements, including footnotes, or Management Discussion and Analysis section of the Company's annual report.

As soon as possible after the determination of the incentive pool for a Fiscal Year, the Board shall calculate the Participant's allocated portion of the incentive pool based upon the percentage established at the beginning of the Fiscal Year. The Participant's Annual Management Incentive Award then shall be determined by the Board based on the Participant's allocated portion of the incentive pool subject to adjustment in the sole discretion of the Board. In no event may the portion of the incentive pool allocated to a Participant who is a Covered Employee be increased in any way, including as a result of the reduction of any other Participant's allocated portion.

## **Article 13. Beneficiary Designation**

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, shall be in a form prescribed by the Company, and will be effective only when filed by the Participant in writing with the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate.

## **Article 14. Deferrals**

The Board may permit or require a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the exercise of an Option or SAR, the lapse or waiver of restrictions with respect to Restricted Stock or Restricted Stock Units, or the satisfaction of any requirements or performance goals with respect to Annual Management Incentive Awards, Performance Shares, Performance Units, and Cash-Based Awards, provided any deferral does not violate Section 409A. If any such deferral election is required or permitted, the Board shall, in its sole discretion, establish rules and procedures for such payment deferrals.

## **Article 15. Rights of Employees/Directors**

**15.1 Employment/Directorship.** Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or other service relationship at any time, nor confer upon any Participant any right to continue in the capacity in which he or she is employed or otherwise serves the Company.

Neither an Award nor any benefits arising under this Plan shall constitute part of an employment contract with the Company, its Affiliates, and/or Subsidiaries and, accordingly, subject to Article 3 and Section 17.1, this Plan and the benefits hereunder may be terminated at any time in the sole and exclusive discretion of the Board without giving rise to liability on the part of the Company, its Affiliates, and/or its Subsidiaries for severance payments.

**15.2 Participation.** No Employee or Director shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

**15.3 Rights as a Stockholder.** A Participant shall have none of the rights of a stockholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

## **Article 16. Change in Control**

**16.1 Change in Control of the Company.** Upon the occurrence of a Change in Control, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges, or unless the Board shall determine otherwise in the Award Agreement:

- (a) Any and all Options and SARs granted hereunder shall become immediately exercisable; additionally, if a Participant's employment or directorship is terminated for any other reason except cause within twelve (12) months of such Change in Control, the Participant shall have until the earlier of: (i) twelve (12) months following such termination date, or (ii) the expiration of the Option or SAR Term, to exercise any such Option or SAR;
- (b) Any Vesting Period imposed on Restricted Stock or Restricted Stock Units shall lapse;
- (c) Annual Management Incentive Awards shall be paid out based on the consolidated operating earnings of the Fiscal Year immediately preceding the year of the Change in Control or such other method of payment as may be determined by the Board at the time of the Award or thereafter but prior to the Change in Control; and
- (d) The target payout opportunities attainable under all outstanding Awards of performance-based Restricted Stock, performance-based Restricted Stock Units, Performance Units, Performance Shares, and performance-based Cash-Based Awards shall be deemed to have been fully earned as of the effective date of the Change in Control.

- (i) The vesting of all Awards denominated in Shares shall be accelerated as of the effective date of the Change in Control, and there shall be paid out to Participants within thirty (30) days following the effective date of the Change in Control, a pro rata number of Shares based upon an assumed achievement of all relevant targeted performance goals and upon the length of time within the Performance Period that has elapsed prior to the Change in Control. The Board has the authority to pay all or any portion of the value of the Shares in cash.
- (ii) Awards denominated in cash shall be paid pro rata to Participants in cash within thirty (30) days following the effective date of the Change in Control, with the proration determined as a function of the length of time within the Performance Period that has elapsed prior to the Change in Control, and based on an assumed achievement of all relevant targeted performance goals.

**16.2 Sale of a Division of the Company.** Notwithstanding any other provisions of this Plan, if there is a sale of a division of the Company, unless otherwise specifically prohibited under applicable laws, or by the rules and regulations of any governing governmental agencies or national securities exchanges, or unless the Board shall determine otherwise in the Award Agreement with respect to any Employee of such division, the following shall apply with respect to any Employee of such division whose employment by the Company is terminated as a result of the sale of said division or any Employee of such division who remains employed by the Company after the sale of the division but who is terminated by the Company (other than a termination for cause as defined in the applicable Award Agreement) within twenty-four (24) months of the sale of said division:

- (a) Any and all Options and SARs granted hereunder shall become immediately vested and exercisable, and shall remain exercisable until the earlier of: (i) twelve (12) months following the effective date of the Employee's termination of employment with the Company, or (ii) the expiration of the Option or SAR Term;
- (b) Any Vesting Period imposed on Restricted Stock or Restricted Stock Units shall lapse;
- (c) Annual Management Incentive Awards shall be paid out based on the consolidated operating earnings of the Fiscal Year immediately preceding the year of an Employee's termination of employment with the Company, or such other method of payment as may be determined by the Board at the time of the Award or thereafter but prior to the sale of the division; and
- (d) The target payout opportunities attainable under all outstanding Awards of performance-based Restricted Stock, performance-based Restricted Stock Units, Performance Units, Performance Shares, and performance-based Cash-Based Awards shall be deemed to have been fully earned for the entire Performance Period(s) as of the date of the Employee's termination of employment due to the sale of the division.
  - (i) The vesting of all Awards denominated in Shares shall be accelerated as of the effective date of the Employee's termination of employment, and there shall be paid out to Participants within thirty (30) days following the effective date of the Employee's termination of employment a pro rata number of Shares based upon an assumed achievement of all relevant targeted performance goals and upon the length of time within the Performance Period that has elapsed prior to the termination of employment. The Board has the authority to pay all or any portion of the value of the Shares in cash.

- (ii) Awards denominated in cash shall be paid pro rata to Participants in cash within thirty (30) days following the effective date of the termination of employment, with the proration determined as a function of the length of time within the Performance Period that has elapsed prior to the termination of employment, and based on an assumed achievement of all relevant targeted performance goals.

For purposes of this Section 16.2, sale of a division means a sale of any segment of the Company and its subsidiaries if the gross revenue of the segment exceeds twenty percent (20%) of the consolidated gross revenues of the Company and its subsidiaries for the immediately prior fiscal year. A cessation of operation of a division shall not constitute a sale. For the purpose of this Section 16.2, subsidiaries means ownership, directly or indirectly, by the Company, of more than fifty percent (50%) of the outstanding voting shares or the total combined voting power of any corporation, partnership, joint venture, limited liability company, or other entity (other than the Company) in an unbroken chain of entities beginning with the Company.

**16.3 Section 409A.** Notwithstanding anything to the contrary under Section 16.1 or Section 16.2, if a Change in Control or sale of a division of the Company does not meet the definition of a Change in Control under Section 409A, and if a payment under either of these sections would result in the imposition of the additional tax under Section 409A, then such payment will occur at the time otherwise specified under the related Award Agreement.

## **Article 17. Amendment, Modification, Suspension, and Termination**

**17.1 Amendment, Modification, Suspension, and Termination.** The Board may, at any time and from time to time, alter, amend, modify, suspend, or terminate the Plan in whole or in part. The Board may also require that payments of nonqualified deferred compensation (as defined under Code Section 409A) be delayed in accordance with Section 1.409A-2(b)(7). Notwithstanding anything herein to the contrary, without the prior approval of the Company's stockholders, Options issued under the Plan will not be repriced, replaced, or regranted through cancellation, or by lowering the exercise price of a previously granted Option. No amendment of the Plan shall be made without stockholder approval if stockholder approval is required by law, regulation, or stock exchange rule.

**17.2 Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events.** The Board may make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.2 hereof) affecting the Company or the financial statements of the Company or of changes in applicable laws, regulations, or accounting principles, whenever the Board determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. The determination of the Board as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan.

It is intended that any adjustment made by the Committee under this Section 17.2 will not result in the additional tax imposed under Code Section 409A.

**17.3 Awards Previously Granted.** Notwithstanding any other provision of the Plan to the contrary, no termination, amendment, suspension, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the Participant holding such Award.

#### **Article 18. Withholding**

**18.1 Tax Withholding.** The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

**18.2 Share Withholding.** With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock and Restricted Stock Units, or upon the achievement of performance goals related to Performance Shares, or any other taxable event arising as a result of Awards granted hereunder, Participants may elect, subject to the approval of the Board, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that could be imposed on the transaction. All such elections shall be irrevocable, made in writing, and signed by the Participant, and shall be subject to any restrictions or limitations that the Board, in its sole discretion, deems appropriate.

#### **Article 19. Indemnification**

Each person who is or shall have been a member of the Board, or a Committee appointed by the Board, or an officer of the Company to whom authority was delegated in accordance with Article 3 shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf, unless such loss, cost, liability, or expense is a result of his or her own willful misconduct or except as expressly provided by statute.

The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

#### **Article 20. Successors**

All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

## Article 21. General Provisions

**21.1 Forfeiture Events.** The Board may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events shall include, but shall not be limited to, termination of employment for cause, violation of material Company, Affiliate, and/or Subsidiary policies, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company, its Affiliates, or its Subsidiaries.

**21.2 Legend.** The certificates for Shares may include any legend which the Board deems appropriate to reflect any restrictions on transfer of such Shares.

**21.3 Gender and Number.** Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

**21.4 Severability.** In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

**21.5 Requirements of Law.** The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. The Company shall receive the consideration required by law for the issuance of Awards under the Plan.

**21.6 Securities Law Compliance.** With respect to Insiders, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successor under the Exchange Act. To the extent any provision of the Plan or action by the Board fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Board.

**21.7 Listing.** The Company may use reasonable endeavors to register Shares allotted pursuant to the exercise of an Award with the United States Securities and Exchange Commission or to effect compliance with the registration, qualification, and listing requirements of any national securities laws, stock exchange, or automated quotation system.

**21.8 Delivery of Title.** The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:

- (a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and
- (b) Completion of any registration or other qualification of the Shares under any applicable national or foreign law or ruling of any governmental body that the Company determines to be necessary or advisable.

**21.9 Inability to Obtain Authority.** The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

**21.10 Investment Representations.** The Board may require each person receiving Shares pursuant to an Award under this Plan to represent and warrant in writing that the Participant is acquiring the Shares for investment and without any present intention to sell or distribute such Shares.

**21.11 Employees Based Outside of the United States.** Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company, its Affiliates, and its Subsidiaries operate or have Employees or Directors, the Board, in their sole discretion, shall have the power and authority to:

- (a) Determine which Affiliates and Subsidiaries shall be covered by the Plan;
- (b) Determine which Employees or Directors outside the United States are eligible to participate in the Plan;
- (c) Modify the terms and conditions of any Award granted to Employees or Directors outside the United States to comply with applicable foreign laws;
- (d) Establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable. Any subplans and modifications to Plan terms and procedures established under this Section 21.11 by the Board shall be attached to this Plan document as appendices; and
- (e) Take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals.

Notwithstanding the above, the Board may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act, the Code, any securities law, or governing statute or any other applicable law.

**21.12 Uncertificated Shares.** To the extent that the Plan provides for issuance of certificates to reflect the transfer of Shares, the transfer of such Shares may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange.

**21.13 Unfunded Plan.** Participants shall have no right, title, or interest whatsoever in or to any investments that the Company may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and any Participant, beneficiary, legal representative, or any other person. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan.

The Plan is not intended to be subject to ERISA.

**21.14 No Fractional Shares.** No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Board shall determine whether cash, Awards, or other property shall be issued or paid in lieu of fractional Shares or whether such fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

**21.15 Governing Law.** The Plan and each Award Agreement shall be governed by the laws of the State of Illinois, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Illinois, to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

**21.16 Deferred Compensation.** It is intended that any Award made under this Plan that results in the deferral of compensation (as defined under Code Section 409A) complies with the requirements of Code Section 409A.

## 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: February 7, 2008

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: February 7, 2008

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 December 31, 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: February 7, 2008

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 December 31, 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: February 7, 2008

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.*