

20.34	+0.32	[3.27%]	838.34	-8.22	[-1.32%]
72.20	-0.21	[-3.10%]	21.23	+9.32	[1.56%]
2,322.00	+3.12	[0.04%]	20.34	+0.32	[0.32%]
3.00	-9.33	[-0.66%]	72.20	-0.21	[-3.10%]
23.03	-3.38	[-5.29%]	5,322.00	+3.12	[0.04%]
238.27	-7.93	[-8.12%]	3.00	-9.33	[-0.66%]
928.10	+3.03	[0.89%]	23.03	-3.38	[-5.29%]
38.23	+0.34	[0.93%]	238.27	-7.93	[-8.12%]
4.23	+0.00	[1.93%]	928.10	+3.03	[0.89%]
46.02	-3.23	[-1.32%]	38.23	+0.34	[0.93%]
47.38	+3.98	[0.32%]	4.23	+0.00	[1.93%]
74.32	-3.21	[-0.99%]	46.02	-3.23	[-1.32%]
2,494.87	-0.32	[-5.32%]	47.38	+3.98	[0.32%]
2.48	+9.73	[0.02%]	74.32	-3.21	[-0.99%]
332.45	+2.09	[1.87%]	2.48	-0.32	[-5.32%]
86.39	+3.03	[0.89%]	332.45	+9.73	[0.02%]
4.21	+0.34	[0.93%]	86.39	+2.09	[1.87%]
132.09	+0.00	[1.93%]	4.21	+3.03	[0.89%]
33.83	+2.23	[3.78%]	132.09	+0.34	[0.93%]
57.92	-2.23	[-1.32%]	33.83	+0.00	[1.93%]
23.33	-2.21	[-0.73%]	57.92	+2.23	[3.78%]
832.98	+3.98	[0.32%]	23.33	-2.23	[-1.32%]
73.12	+1.32	[2.12%]	832.98	-2.21	[-0.73%]
833.22	-3.21	[-0.99%]	73.12	+3.98	[0.32%]
8,212.30	-0.32	[-5.32%]	833.22	+1.32	[2.12%]
3.00	+9.73	[0.02%]	8,212.30	-3.21	[-0.99%]
83.12	+2.09	[1.87%]	3.00	-0.32	[-5.32%]
63.98	+9.32	[1.56%]	83.12	+2.09	[1.87%]
234.22	+0.32	[0.32%]	63.98	+9.32	[1.56%]
2.32	-0.21	[-3.10%]	234.22	+0.32	[0.32%]
24.13	+3.33	[0.32%]	2.32	-0.21	[-3.10%]
74.75	+0.32	[2.23%]	24.13	+3.33	[0.32%]
83.43	+4.10	[1.93%]	74.75	+0.32	[2.23%]
92.42	-0.43	[-9.83%]	83.43	+4.10	[1.93%]
9329.32	+3.03	[0.89%]	92.42	-0.43	[-9.83%]
23.32	+0.34	[0.93%]	9329.32	+3.03	[0.89%]
928.10	+0.00	[1.93%]	23.32	+0.34	[0.93%]
38.23	+3.23	[3.78%]	928.10	+0.00	[1.93%]
4.23	-23.23	[-1.32%]	38.23	+3.23	[3.78%]
46.02	-29.21	[-0.73%]	4.23	-23.23	[-1.32%]
			46.02	-29.21	[-0.73%]

The Restatement Process

How Long Will it Take, What to Do, and What to Avoid

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Best Practices to Manage the Restatement Process

The restatement process will obviously be dictated by both the size and nature of the restatement. However, for those who find themselves involved in a protracted process that may include an external investigation, the following are some best practices for managing the process.

1 First and Foremost: Organize and Plan.

Announcing the need for a restatement can be difficult, but it's also generally just the beginning of the work required. Even though a great deal of information has been organized and reviewed for the company to be able to announce the need for a restatement, much more effort must be expended to complete the investigation, if applicable, and external audit, document internal control weaknesses, and prepare the restated financial statements. This is likely the best time to call a "time-out" and assess the plan to accomplish the tasks required to complete an amended filing of your financial statements. Human nature will be to dive in, but actually stepping back from the situation and preparing a thorough work plan is the best immediate course of action.

Introduction

Huron has helped many boards of directors and management teams work their way through correcting errors in their financial statements. It is based on this experience and with a desire to assist companies dealing with these difficult matters that we produced this report. Our goal is to provide insight and answers to the key questions that are most often asked at the earliest stages of the restatement process, including:

- How long will this process take?
- When will we be able to file our corrected financial statements?
- What do we need to do to manage our way through this undertaking?
- Are there common problems and obstacles about which we should be wary?
- What other questions should we be asking?

To respond to the first question on timing, we identified restatements announced during the period of August 2004 through December 2006 and matched these announcements to the subsequent filings of the corrected financial statements, recognizing some were not yet finished. We next identified each registrant's industry, revenue amount, and other key characteristics, including the accounting issues involved, so that we could prepare useful benchmark data.

To address the other questions, we have assembled our insights, observations, and recommendations based on the experience we have gained from helping many companies through this difficult process.

We hope this information is useful for those handling corrections to their financial statements and welcome feedback that may further help companies manage their way through the restatement process.

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The Restatement Process

One of the most difficult and stressful situations that a company can be forced to deal with is the announcement and correction of an error in its previously released financial statements. It is fair to assume that no one likes to admit to being wrong, and this is especially true when it relates to financial statements on which investors have relied.

While the ramifications are somewhat obvious, admitting your financial statements are flawed often triggers class action shareholder lawsuits and investigations to determine whether the errors were committed intentionally. In addition, the clock starts to run with regard to your delinquent filings and your stock exchange may start delisting proceedings, which can add to the stress of the situation. Whether one is a member of management or a member of the board, managing the process of a restatement requires expertise and attention to all details, including every constituency and issue encountered, during each stage of the process.

Process and Procedures

We identified Form 8-K reports filed with the U.S. Securities and Exchange Commission (SEC) between August 2004 and December 2006 reporting on Item No. 4.02 “Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review”. We matched these announcements to the subsequent filings of the restated financial statements, recognizing that restated financial statements for certain companies have not yet been filed as of March 31, 2007. We then conducted refined searches to include only “restatements,” defined in FASB Statement No. 154 as “the process of revising previously issued financial statements to reflect the correction of an error in those financial statements.” The report excludes any non-financial related restatements. To analyze the information for averages and trends, we created a database comprised of all relevant information for each restatement identified. The database includes approximately 1,900 restatements.

2 Designate a Project Manager. Someone has to own, oversee, coordinate, and be responsible for the success of the restatement project. Before you pick someone in senior management, do consider that people will still have their “day” jobs to perform. It’s fine for senior management to delegate this role, while making absolutely certain that everyone knows the project manager has the support of senior management and the board. Additionally, the project manager doesn’t necessarily have to be an employee, but could be a consultant. In some circumstances, using an experienced outsider can bring efficiencies and a clear focus, as well as a fresh set of eyes, to the process.

3 Lock Down the “Issue” List ASAP. Nineteen percent of the initial announcements for restatements reported fewer accounting issues than were ultimately restated in the amended filing. For every issue not identified early in this process, the risk of delays and a prolonged time period to finish the restatement grows. The prudent thing to do is to make sure any and all risk areas, prior period passed adjustments, and any debatable items are considered early in the process. This doesn’t mean that estimates and judgments should be reopened and changed with the benefit of hindsight, because if properly supported at the time established, they should stand. It does, however, mean that to make this process as efficient as possible, surfacing items for early consideration is the best answer.

BENCHMARK DATA FOR RESTATEMENT TIMING

Overall Timing

The average time between the filing of the initial Form 8-K and the filing of the restated financial statements was seven weeks, while the median was three weeks. The fairly significant difference between the two is due to the fact that a portion of restatements take months, and in some instances over a year, to complete.

Some of the shorter time frames may be due to the process a company would go through once they determine the accounting for a transaction is in error. In order to determine whether the error is material, a company would need to determine the appropriate accounting for the transaction. If the auditor is involved in that process, as would be expected, it would shorten the time required to file the restated financial statements once the company concludes the error is material.

Approximately one out of every six restatements analyzed was filed within one day of a registrant filing the Form 8-K, while approximately one-third of the restatements were filed within two weeks of the initial Form 8-K filing.

The table below illustrates the timing between filing Form 8-K and the restatement for those companies in our database.

The good news is that in approximately four out of five instances, restated financial statements are filed within four months of the initial Form 8-K filing alerting the public of a material accounting error. The bad news is that approximately 20% of the time, it takes longer than four months to restate. Such a delay generally results in the registrant missing at least one timely filing of a Form 10-K or Form 10-Q with the SEC.

The wide range in the amount of time it takes to file restated financial statements illustrates that not all restatements are equal. In fact, it's just the opposite. There is a wide discrepancy in the size and severity of restatements. The restatements in our database range from relatively simple reclassifications within the cash flow statement to the headline-grabbing, multiple-year restatements of numerous categories that affect net income.

Time Between Form 8-K Filing and Restated Financial Statements	% of Overall Population
0-4 months	79%
4-8 months	6%
8-12 months	2%
> 1 year	1%
2004 Form 8-K not yet restated ¹	1%
2005 Form 8-K not yet restated ¹	3%
2006 Form 8-K not yet restated ¹	8%

¹As of March 31, 2007

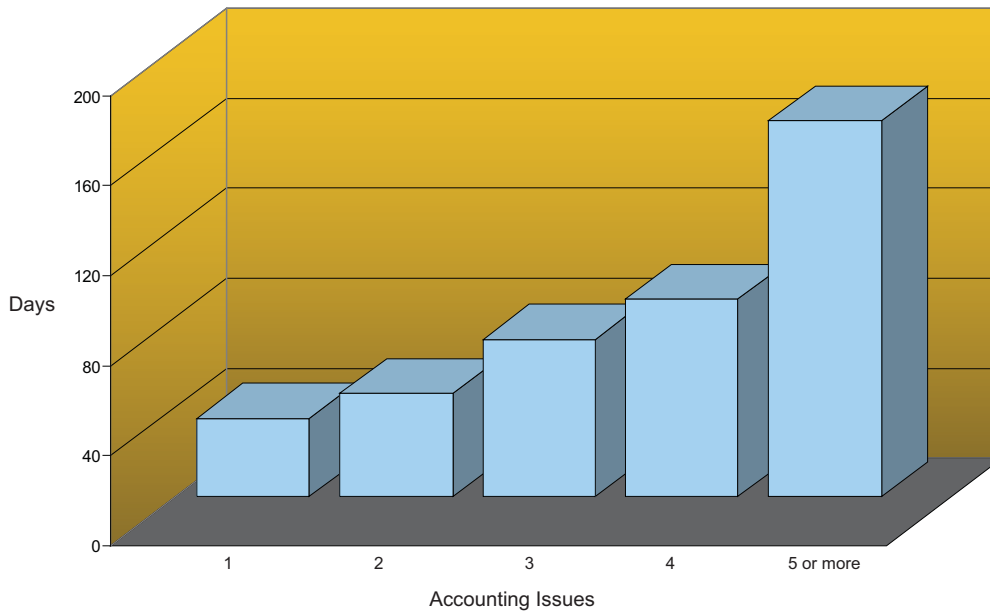
4 Consider Teams and Leaders for Common Issues. If the restatement will cover numerous issues, then it is wise to create an organization chart for the team with leaders and members for each issue. For each team, the efficiencies of resolving common issues can enhance the speed with which they work and maximize knowledge sharing of common issues. If a restatement affects multiple periods, assigning ownership of individual periods will facilitate the process.

5 Identify the Solid Foundation and Starting Point. Once the determination of an error has been made, the cure must start with a period that is stated correctly. In most situations, this is done by using a historical balance sheet as the foundation and starting point for the restatement. Because this financial statement may be a few years old, be prepared to assemble information that may not be readily available. In addition, be prepared to assess the accuracy of your five-year table information. As you can imagine, the sooner you get the oldest information organized, the lower the chance of a last-minute scramble to find information.

Accounting Issue Analysis

The time it takes for the average restatement dramatically increases as the number of accounting issues involved in the restatement increases. The following reflects the average number of days between the filing of Form 8-K and the restated financial statements distributed by the number of restatement issues.

Average Number of Days Between Form 8-K Filing and Restated Financial Statements by Number of Accounting Issues



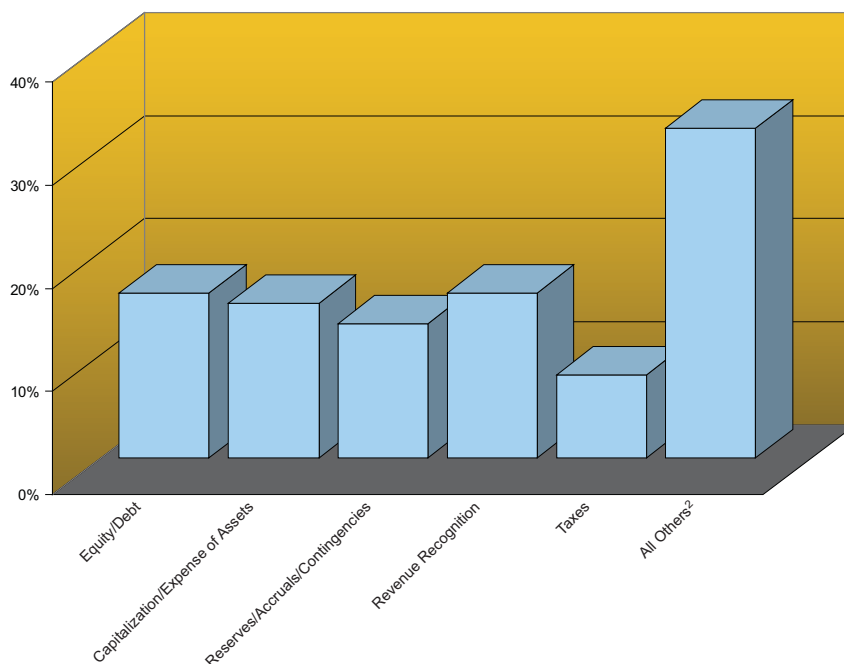
Our study indicates that approximately 19% of the time, the restated financial statements identified more accounting issues than were originally identified in the Form 8-K filing. Interestingly, more than 80% of the restatements that identified five or more accounting issues had fewer than five issues identified on the original Form 8-K filing. This is particularly relevant given the fact that a restatement that contains five or more issues takes significantly longer to complete than those with fewer than five issues.

6 Make Technology Your Friend. Think through what has to happen to restate the financials based on the reporting systems and other electronic databases and spreadsheets that are part of your accounting environment. Consider how people will access information and what protocols or training may be required. Consider how to protect your system and the integrity of information during this process. Consider how restatement adjustments will be made to your reporting system and whether a redundant financial statement model would be useful as a “checks and balances” mechanism to the system-generated reporting.

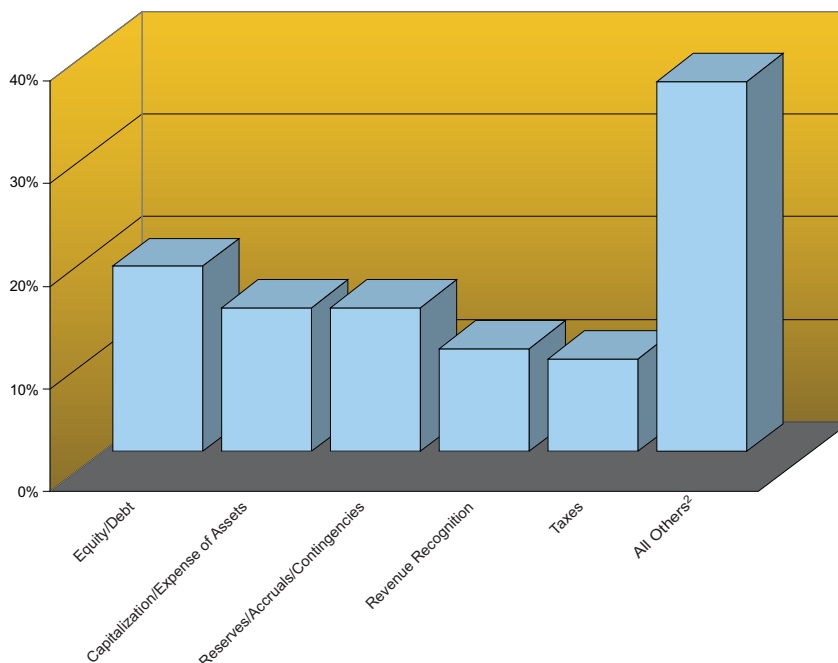
7 Prepare a Timeline with Milestones and Regularly Scheduled Updates. Goals and milestones along a timeline are essential to meeting deadlines and communicating progress, especially with so many parties interested in the progress of the project. Establish a regular reporting mechanism so that updates occur frequently, yet don't become an obstacle or distraction. Also make sure the team involved is flexible to changes in timeline expectations and that quality ultimately controls all timeline discussions.

Finally, we analyzed restatements by type of accounting issue to determine whether certain types of accounting problems led to longer delays in completing a restatement. As illustrated in the graphs below, when we separated the population into those restatements that took less than four months to complete, and those that took longer than four months to complete, the same five accounting issues were most prevalent in both populations. Thus, it seems that the type of accounting issue or issues encountered by a registrant is not a strong determining factor in how long the restatement process will take.

Top 5 Accounting Issues for Restatements Taking More Than Four Months



Top 5 Accounting Issues for Restatements Taking Less Than Four Months



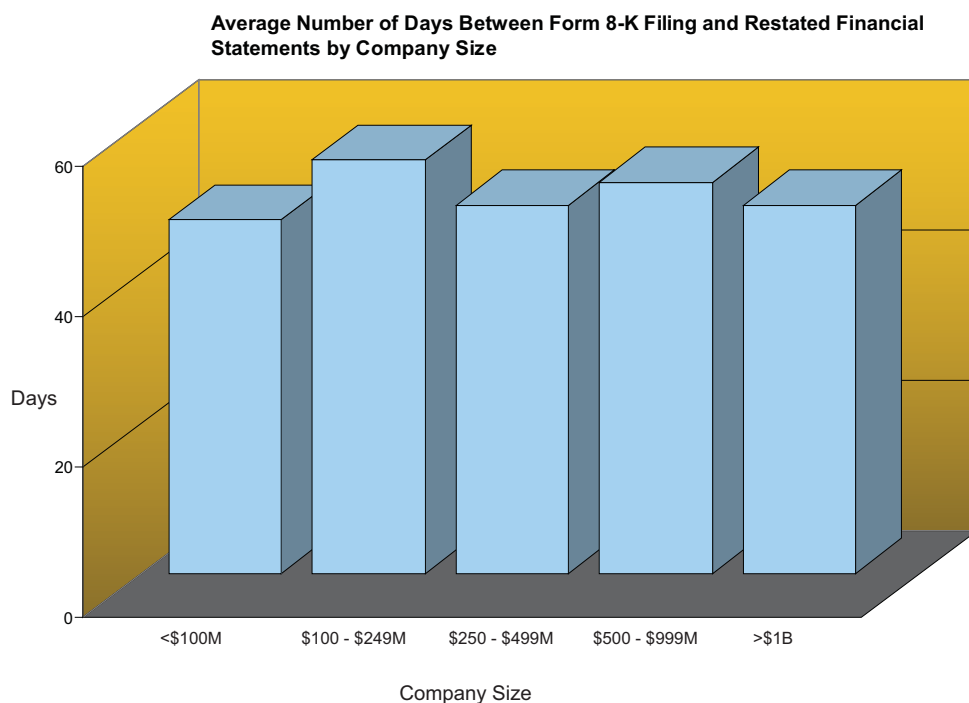
²Primarily consists of Acquisition Accounting, Investments/Derivatives, Inventory, Gain/Loss, Equity Method/Consolidation, and Cash Flow and Balance Sheet Reclassifications.

8 Establish a “Trouble-Shooting” List and Process. Accounting issues will typically arise that weren’t anticipated. The team should be prepared with a process for dealing with new issues in order to bring efficiency and avoid lengthy delays. The worst thing that can happen is having too many people get distracted and therefore miss deadlines that were otherwise achievable. For example, the project manager could accumulate these new matters and identify whether research is required, whether a new task needs to be performed or if a decision or judgment needs to be made by others.

9 Establish Protocols for Communication: Management, Audit Committee, Auditor, Other. The need for, and frequency of, communication on the restatement’s progress will vary for each interested party. Obviously, members of senior management have the first seat in these communications and the need for updates. The audit committee and board require information following the announcement as to progress against timelines and any new information requiring their involvement. The auditor needs to know when they can begin their procedures. There is generally a constant flow of information between the company and its auditor on issues and needs during this process. In addition, Counsel needs to be involved throughout the process to assess whether communication is required to regulators, listing agencies, and to the public regarding any changes from original disclosures and expectations.

Company Size Comparisons

The size of the company restating, as measured by revenues, does not appear to be a significant factor in determining the average length of time to restate, as shown below.



The lack of significant variation is likely due to the fact that the restatement process is generally the same for any public company, regardless of size. While the size of the teams doing the work will change along with the number of issues, the process and time pressures are the same for all companies.

10 Assess Resource Needs.

These are often very stressful times for your accounting and finance people, and even under these conditions they still have their daily tasks to perform in addition to dealing with the extra burden of filing restated financial statements. While your team's knowledge is absolutely essential to completing the restatement, they can become overstressed, overworked, and burned out, creating even more risks for the company. To manage this situation, bringing in external resources can be very helpful. Sometimes these resources are brought in to assist your team by leveraging their responsibilities or possibly to assume and own projects entirely. Companies have job descriptions that reflect expectations under normal circumstances, and adding the tasks required in a restatement should lead management to consider whether people are being asked to do too much. If possible, have people who were not involved in the original errors make the final restatement judgments. This helps avoid an appearance of "self-review" and brings an independent perspective.

11 Keep Documentation and Files Intact.

Records and files need to be treated as extremely valuable assets during the restatement process. Many people are requesting access to information and, if not properly organized, files can be lost or left in a state of disarray. This is especially true as information must be retrieved, reviewed by management, provided to auditors, and ultimately returned for safe-keeping and possible requests by others. Although it may not fit all situations, one solution for controlling the sharing of data is to track the location and chain of custody of key files.

12

Be Prepared to Pay Retention Bonuses.

As described

previously, the accounting and finance teams have knowledge that is essential to the successful completion of the restatement, plus they are the people who may work the most overtime to see the process through to a successful end. Be mindful of these factors and be sensitive to rewarding these individuals so they remain motivated and committed to the company during this period of great need and stress.

13

Don't Wait to Draft Financial Statements.

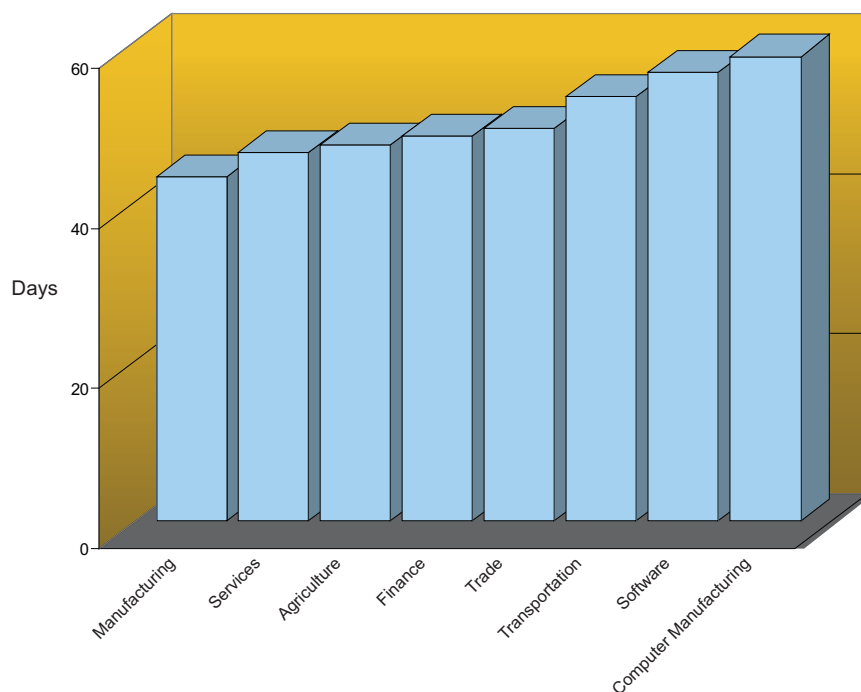
Delegating the

responsibility for financial statement and footnote preparation immediately is important because much of the work may be done on a parallel path with the account analysis in the restatement. The financial statement preparation process may uncover questions and needs that can be answered during the process rather than creating a delay at the end. Also as part of this process, it is important to identify who should be involved in the review of sensitive disclosures such as the description of the restatement causes and the control breakdowns. Obviously, both are critical components of the communication regarding what went wrong and how the company handled the error.

Industry Averages

The following graph shows the industry distribution of the average number of days between the filing of the Form 8-K and the restated financial statements.

Average Number of Days Between Form 8-K Filing and Restated Financial Statements by Industry



High-tech companies take the longest to restate, while “old school” manufacturing and services companies are the quickest. This may be due in part to the fact that high-tech companies generally have had more rapid growth and, therefore, have greater pressure on systems and controls. This can result in a longer period of time to remediate a problem (including getting investigators, if applicable, and auditors comfortable with the restated numbers and their supporting documentation).

Another factor could be that, in certain areas like revenue recognition, high-tech companies have more complex accounting rules. Finally, high-tech companies tend to issue a greater number of complex debt and equity instruments.

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