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Huron Consulting Group Reveals Leading Causes of Financial Restatements in 2003

Upward Trend in Financial Restatements Ends After Five Record Setting Years; Reserve Accounting Leading Cause of Restatements

CHICAGO – January 13, 2004 - Huron Consulting Group today released a summary of its *2003 Annual Review of Financial Reporting Matters*, a report analyzing the leading causes and trends in financial restatements filed with the U. S. Securities and Exchange Commission (SEC) for the year ending December 31, 2003. The analysis is broken down by company size, industry, and accounting issue and also notes whether the accounting error was initially reported in either a quarterly or an annual financial statement.

Public companies that changed their previously released financial statements due to accounting errors totaled 323 in 2003, a slight decline compared to the 330 restatement filings identified in 2002, and up from 270 in 2001 and 233 in 2000. These restatements have been filed in both amended quarterly (10Q/A) and annual (10K/A) financial statements filed with the SEC. (Graph 1)

"The number of accounting errors identified in 2003, though certainly not a cause for celebration, may indicate that we have put the worst restatement period behind us and can expect to see further improvements in the years ahead," said Joseph J. Floyd, chief operating officer for Huron's Financial and Economic Consulting practice.

"As we have observed in prior years, problems applying accounting rules, human and system errors, and fraudulent behavior are the three primary causes for accounting errors," added Floyd.

In 2003, the number of restated audited annual financial statements rose to a record high of 206, representing 63 percent of total restatements filed during the year. While investors rely on both quarterly and annual financial statements of public companies, there is a different level of procedures and responsibility assumed by the auditors for each. Annual financials have a higher level of effort and association required since an audit opinion is rendered. (Graph 2)

Errors in accounting for reserves and contingencies was the leading cause of restatements in 2003. This category includes accounting errors related to accounts receivable and inventory reserves, restructuring reserves, accruals, and other loss contingencies. Restatements attributable to this category experienced a greater increase in 2003 than any other accounting issue. (Graph 3)

Reserves and contingencies may be among the most judgmental accounts in a company's financial statements as they are subject to an estimation process. These restatements, however, do not simply reflect changes in estimates, but rather reflect flawed judgments due to the oversight or misuse of facts, fraud, or a misapplication of Generally Accepted Accounting Principals (GAAP).

Revenue recognition was the second leading cause of restatements in 2003. However, the 63 revenue recognition related restatements identified in 2003 represent a 26 percent decrease from 2002 when revenue recognition restatements reached an all time high. (Graph 4)

The number of 2003 restatements by companies with annual revenues under \$100 million rose to 158, or 49 percent of all restatements filed during the year. The percentage of restatements filed by companies with annual revenues greater than

\$1 billion decreased slightly in 2003, from 22 percent in 2002 to 20 percent in 2003. (Graph 5)

"Sarbanes-Oxley and recent catastrophic restatements have resulted in major changes in our financial reporting world," Floyd said. "Increased internal and external scrutiny plus shareholder demands are working to improve the financial reporting process."

In addition, this year Huron Consulting Group's full report will summarize the major events impacting the financial reporting world in 2003 including actions taken by the SEC, Public Company Accounting Oversight Board (PCAOB), Financial Accounting Standards Board (FASB) and major observations regarding the public accounting industry. The full report will be available in early February.

Companies wishing to learn more about how Huron Consulting Group can help them should contact Joseph J. Floyd at 617-226-5510 or jfloyd@huronconsultinggroup.com. Members of the media should contact Jennifer Frost Hennagir at 312-880-3260 or jfrost-hennagir@huronconsultinggroup.com.

About Huron Consulting Group

Huron Consulting Group is a 550-person business consulting organization created on the belief that our people are our greatest asset and that our clients deserve the very best in terms of effort, care, and intellectual capacity – focused on results.

Huron Consulting Group provides valuation, corporate finance, restructuring, and turnaround services to companies and lenders. It performs financial investigations, litigation analysis, expert testimony and forensic accounting for attorneys. Huron provides strategic planning, operational consulting, strategic sourcing, and organizational and technology assessments in a variety of industries including manufacturing, healthcare and pharmaceutical, higher education, law firm and corporate law departments, transportation, and energy.

Huron Consulting Group operates nationwide with offices in Boston, Charlotte, Chicago, Houston, Miami, New York, San Francisco and Washington, D.C. Learn more at www.huronconsultinggroup.com.

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