LG.Philips LCD Co., Ltd.
Form 6-K
August 14, 2007
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of August 2007

LG.Philips LCD Co., Ltd.

(Translation of Registrant s name into English)

20 Yoido-dong, Youngdungpo-gu, Seoul 150-721, The Republic of Korea

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submission to furnish a report or other document that the registration foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant s security holders, and if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No __X__

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SEMIANNUAL REPORT

(From January 1, 2007 to June 30, 2007)

THIS IS A TRANSLATION OF THE SEMIANNUAL REPORT ORIGINALLY PREPARED IN KOREAN AND IS IN SUCH FORM AS REQUIRED BY THE KOREAN FINANCIAL SUPERVISORY COMMISSION.

IN THE TRANSLATION PROCESS, SOME PARTS OF THE REPORT WERE REFORMATTED, REARRANGED OR SUMMARIZED FOR THE CONVENIENCE OF READERS.

UNLESS EXPRESSLY STATED OTHERWISE, ALL INFORMATION CONTAINED HEREIN IS PRESENTED ON A NON-CONSOLIDATED BASIS IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN KOREA, OR KOREAN GAAP, WHICH DIFFER IN CERTAIN RESPECTS FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CERTAIN OTHER COUNTRIES, INCLUDING THE UNITED STATES. WE HAVE MADE NO ATTEMPT TO IDENTIFY OR QUANTIFY THE IMPACT OF THESE DIFFERENCES IN THIS DOCUMENT.

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1. Korean GAAP Non-consolidated Financial Statements
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1. Overview

A. Industry

(1) Industry characteristics and growth potential

TFT-LCD technology is one of the most widely used technologies in the manufacture of flat panel displays and the demand for flat panel displays is growing rapidly. The flat panel display industry is characterized by entry barriers due to rapidly evolving technology, capital-intensive characteristics, and the significant investments required to achieve economies of scale, among other factors. There is strong competition between a limited number of players within the industry and production capacity in the industry, including ours, is being continually increased.

The demand for LCD panels for notebook computers and desktop monitors has been closely related to the IT industry cycle. The demand for LCD panels for TVs is growing with the start of HDTV broadcasting and as LCD TVs have come to play a key role in the digital display market. There is competition between TFT-LCD and PDP technologies in the area of large flat TV products. In addition, LCD panel markets for applications, such as mobile phones, PDAs, medical applications and automobile navigation systems, among others, are growing steadily.

The average selling prices of our display panels have declined in general and are expected to continually decline with time irrespective of industry-wide fluctuations as a result of, among other factors, technology advances and cost reductions.

(2) Cyclicality

The TFT-LCD business has high cyclicality as well as being a capital-intensive business. In spite of the increase in demand for products, this industry has experienced periodic volatility caused by imbalances between demand and supply due to capacity expansion within the industry.

Intense competition and expectations of demand growth may lead panel manufacturers to invest in manufacturing capacity on similar schedules, resulting in a surge in capacity when production is ramped up at new fabrication facilities.

During such surges in capacity growth, our customers can exert and have exerted strong downward pricing pressure, resulting in sharp declines in average selling prices and significant fluctuations in our gross margins. Conversely, demand surges and fluctuations in the supply chain can lead to price increases.

(3) Competitiveness

Our ability to compete successfully depends on factors both within and outside our control, including product pricing, performance and reliability, successful and timely investment and product development, success of our end-brand customers in marketing their brands and products, component and raw material supply costs, foreign exchange rate and general economic and industry conditions.

Core competitiveness includes technology leadership, capability to design new products and premium products, timely investment in advanced fabs, cost leadership through application of large production lines, innovation of process and productivity, and collaborative customer relationships.

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Most importantly, cost leadership and stable and long-term relationships with customers are critical to secure profit even in a buyer s market.

A substantial portion of our sales is attributable to a limited group of end-brand customers and their designated system integrators. The loss of these end-brand customers, as a result of customers entering into strategic supplier arrangements with our competitors or otherwise, would thus result in reduced sales.

Developing new products and technologies that can be differentiated from those of our competitors is critical to the success of our business. We take active measures to protect our intellectual property internationally by obtaining patents and undertaking monitoring activities in our major markets. It is also necessary to recruit and retain the experienced key staffs and highly skilled line operators.

(4) Sourcing material

Materials are sourced in-house (color filters) as well as from domestic and overseas vendors.

The shortage of raw materials may arise temporarily due to the rapid increase in demand for raw materials resulting from capacity expansion in the TFT-LCD industry.

We have purchased, and expect to purchase, a substantial portion of our equipment from a limited number of qualified foreign and local suppliers. From time to time, increased demand for new equipment may cause lead times to extend beyond those normally required by the equipment vendors.

(5) Others

Most TFT-LCD panel makers are located in Asia.

a. Korea:	LG.Philips LCD, Samsung Electronics (including a joint venture between Samsung Electronics and Sony Corporation), BOE-Hydis
b. Taiwan:	AU Optronics, Chi Mei Optoelectronics, CPT, etc.
c. Japan:	Sharp, IPS-Alpha, etc.
d. China:	SVA-NEC, BOE-OT, etc.

B. Company

(1) Business overview

Commercial production for our TFT-LCD business began in September 1995 at P1, which was then the first fabrication facility of LG Electronics. At the end of 1998, LG Electronics and LG Semicon transferred their respective TFT-LCD related businesses to LG Soft Co., Ltd (currently LG.Philips LCD Co., Ltd.). LG.Philips LCD became a joint venture between LG Electronics and Philips Electronics in August 1999. In July 2004, we completed our initial public offering and listed our common stock on the Korea Exchange and our ADSs on the New York Stock Exchange. As of June 30, 2007, we operate seven fabrication facilities located in Gumi and Paju, Korea, and six module facilities located in Gumi and Paju, Korea, Nanjing (3 factories), China and Wroclaw, Poland.

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We became the first LCD maker in the world to commence commercial production at a 4th generation fab (P3) in July 2000 and at a 5th generation fab (P4) in March 2002, and we started mass production at our 6th generation fab (P6) in August 2004, which allows us to produce LCD panels for large TVs and monitors. Following mass production at our 7th generation fab (P7) in January 2006, we became a panel maker who operates both 6th and 7th generation lines, which we believe will strengthen our position as a leader in the LCD TV market.

Our sales increased by 30.4% from KRW 4,504 billion in the first half of 2006 to KRW 5,874 billion in the first half of 2007 (our consolidated sales under Korean GAAP increased by approximately 27% from KRW 4,786 billion in the first half of 2006 to KRW 6,077 billion in the first half of 2007).

We recorded an operating loss of KRW 99 billion in the first half of 2007 compared to an operating loss of KRW 410 billion in the first half of 2006. We recorded a net income of KRW 60 billion in the first half of 2007 compared to a net loss of KRW 274 billion in the first half of 2006 (we recorded a consolidated operating loss under Korean GAAP of KRW 58 billion in the first half of 2007 compared to a consolidated operating loss of KRW 320 billion in the first half of 2006. Our consolidated net income (loss) amounts under Korean GAAP for the first half of 2006 and 2007, respectively, are the same as our non-consolidated net income (loss) amounts for the corresponding periods.).

We reinforced our position as a leader in LCD technology with the world s first 100-inch TFT-LCD panel and the development of a super-slim panel for mobile phones.

Moreover, we formed strategic alliances or entered into long-term sales contracts with major global firms such as Kodak and Syntax-Brillian of the United States and Japan s Toshiba, among others, to secure customers and expand partnerships for technology development.

Business area of the company for disclosure is limited to the LCD business.

(2) Market shares

Our world wide market share for large-size TFT-LCD panels (10-inch or large) based on revenue

	Q1 2007	2006	2005	2004
Panel for Notebook Computers	29.2%	26.2%	22.5%	19.6%
Panel for Desktop Monitors	17.1%	15.6%	22.5%	22.6%
Panel for TVs	22.7%	23.6%	23.9%	19.8%
Total	21.1%	20.5%	22.2%	20.9%

* Source: DisplaySearch Q2 2007

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(3) Market characteristics

Due to the recent high growth in the display appliance market for the flat display format, the scale of the LCD market is growing at a rapid rate, resulting in expansion of the market centered mainly in America, Japan, Europe and China.

(4) New business

P7 in our Paju display cluster is expected to reach a production capacity of 130,000 input sheets of glass substrate per month in the third quarter of 2007. We are currently reviewing an investment for the next generation of fabrication facilities in anticipation of growth in the TFT-LCD market.

In September 2005, we entered into an agreement to build a back-end module production plant in Wroclaw, Poland, becoming the first global LCD industry player to commence such a production facility in Europe. We broke ground on the plant in June 2006 and started mass production in March 2007.

In October 2006, we formed a strategic alliance with Toshiba Corporation whereby Toshiba would take a 19.9% equity participation in our subsidiary, LG.Philips LCD Poland Sp. z o.o., and LG.Philips LCD Poland Sp. z o.o. would supply Toshiba with a quantity of LCD TV panels produced at the plant in Poland.

In May 2006, we entered into an investment agreement with the Guangzhou Development District Administrative Committee to construct a module production plant in Guangzhou, China, and in June 2006, we established LG.Philips LCD Guangzhou Co., Ltd.

(5) Organization chart as of June 30, 2007

JRD : Joint Representative Director

CEO : Chief Executive Officer

CFO : Chief Financial Officer

CPO : Chief Production Office

CTO : Chief Technology Officer

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2. Information Regarding Shares

A. Change in Capital Stock

(Unit: KRW, Share)

Date	Descriptions	Change in Number of Common Shares	Face amount per share
July 23, 2004	Initial Public Offering*	33,600,000	5,000
September 8, 2004	Over-allotment Option**	1,715,700	5,000
July 27, 2005	Follow-on Offering***	32,500,000	5,000

* ADSs offering: 24,960,000 shares (US$30 per common share, US$15 per ADS) Offering of common shares: 8,640,000 shares (KRW34,500 per common share)

** Pursuant to underwriters exercise of over-allotment option (US$30 per common share, US$15 per ADS)

*** ADSs offering (US$42.64 per common share, US$21.32 per ADS)

B. Convertible Bonds

(Unit: USD, Share)

Item		1st CB	2nd CB
Issuing Date		April 19, 2005	April 18, 2007
Maturity		April 19, 2010	April 18, 2012
(Redemption Date after Put Option Exercise)		(October 19, 2007)	(April 18, 2010)
Face Amount		475,000,000	550,000,000
Offering method		Public Offering	Public Offering
Conversion period		Convertible into shares of common stock in the period from June 27, 2005 to April 4, 2010	Convertible into shares of common stock in the period from April 19, 2008 to April 3, 2012
Conversion price		KRW 58,251 per share*	KRW 49,070 per share
Conversion status	Number of shares already converted	None	None
	Number of convertible shares	8,276,681 shares if all are converted*	10,464,234 shares if all are converted*
Remarks		Registered form	Registered form

	Listed on Singapore Exchange	Listed on Singapore Exchange

* Conversion price was adjusted from KRW 58,435 to KRW 58,251 and the number of convertible shares was adjusted from 8,250,620 to 8,276,681 pursuant to a follow-on offering on July 27, 2005.

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C. Shareholder List

(1) Total shares issued: 357,815,700 shares as of June 30, 2007.

(2) Largest shareholder and related parties as of June 30, 2007.

(Unit: share)

Name	January 1, 2007	Increase/Decrease	June 30, 2007
LG Electronics	135,625,000 (37.90)%		135,625,000 (37.90)%
Total	135,625,000 (37.90)%		135,625,000 (37.90)%

(3) Shareholders who owned 5% or more of our shares as of December 31, 2006

(Unit: share)

Name	Type of Stock	Number of shares	Ratio
LG Electronics	Common Stock	135,625,000	37.9%
Philips Electronics	Common Stock	117,625,000	32.9%
Citibank N.A.*	Common Stock	27,868,438	7.8%
Total		281,118,438	78.6%

* ADSs Depositary

D. Voting rights as of June 30, 2007

(Unit: share)

Description	Number of shares
1. Shares with voting rights [A-B]	357,815,700
A. Total shares issued	357,815,700
B. Shares without voting rights	
2. Shares with restricted voting rights	
Total number of shares with voting rights [1-2]	357,815,700

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E. Dividends

Dividends during the recent 3 fiscal years

Description	2007 H1	2006	2005
Par value (Won)	5,000	5,000	5,000
Net income (Million Won)	59,888	(-)769,313	517,012
Earnings per share (Won)	167	(-)2,150	1,523
Retained earning for dividends (Million Won)	2,770,924	2,711,036	3,480,349
Total cash dividend amount (Million Won)			
Total stock dividend amount (Million Won)			
Cash dividend payout ratio (%)			
Cash dividend yield (%)			
Stock dividend yield (%)			
Cash dividend per share (Won)			
Stock dividend per share (Won)			

* Earnings per share are calculated based on par value of 5,000 Won. (Adjusted to give effect to the 2-for-1 stock split that became effective on May 25, 2004, as a result of which the par value of our common stock decreased from Won 10,000 per share to Won5,000 per share.)

* Retained earning for dividends is the amount before dividends are paid.

* Earnings per share is calculated by net income divided by weighted average number of common stock.

3. Major Products and Materials

A. Major products

(Unit: In billions of Won)

Business area	Sales types	Items (Market)	Specific use	Major trademark	Sales (%)
TFT-LCD	Product/ Service/ Other Sales	TFT-LCD (Overseas)	Notebook Computer, Monitor, TV, etc.	LG.Philips LCD	5,421 (92.3)%
		TFT-LCD (Korea*)	Notebook Computer, Monitor, TV, etc.	LG.Philips LCD	453 (7.7)%
Total					5,874 (100)%

* Including local export.

** Period: 2007.1.1 ~ 2007.6.30

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B. Average selling price trend of major products

(Unit: USD / m^2)

Description	2007 Q2	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 Q1
TFT-LCD panel	1,274	1,287	1,414	1,430	1,598	1,953

* Semi-finished products in the cell process have been excluded.

** Quarterly average selling price per square meter of net display area shipped

*** On a consolidated basis

C. Major materials

(Unit: In billions of Won)

Business area	Purchase types	Items	Specific use	Purchase amount (%)	Suppliers
TFT-LCD	Materials	Back-Light	LCD Panel Manufacturing	1,028 (29.6)%	Heesung Electronics Ltd., etc.
		Glass		726 (20.9)%	Samsung Corning Precision Glass Co., Ltd., NEG, etc.
		Polarizer		425 (12.2)%	LG Chem., etc.
		Others		1,295 (37.3)%	
Total				3,474 (100.0)%	

* Period : 2007.1.1 ~ 2007.6.30

D. Price trend of major materials

Prices of major materials depend on fluctuations in supply and demand in the market as well as on change in size and quantity of raw materials according to the increased production of large-size panels.

4. Production and Equipment

A. Production capacity and calculation

(1) Production capacity

(Unit : 1,000 Glass sheets)

Business area	Items	Business place	2007 H1	2006	2005
TFT-LCD	TFT-LCD	Gumi, Paju	5,186	9,942	8,128

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(2) Calculation of Capacity

a. Method	
Assumptions for calculation	
Calculation method	Based on glass input
	2007H1: Monthly maximum input capacity in the first half x number of months (6 months).
	2006 and 2005: Monthly maximum input capacity for 4th quarter x number of months (12 months).
b. Average working hours	Refer to B-(2)

B. Production performance and working ratio

(1) Production performance

(Unit: 1,000 Glass sheets)

Business area	Items	Business place	2007 H1	2006	2005
TFT-LCD	TFT-LCD	Gumi, Paju	4,758	9,052	7,544

* Based on input glass

(2) Working Ratio *

(Unit: Hours)

Business place (area)	Available working hours of 2007 H1	Real working hours of 2007 H1	Average working ratio
Gumi (TFT-LCD)	4,344 (24 hours X 181 Days)	4,344 (24 hours X 181 Days)	100%
Paju (TFT-LCD)	4,344	4,296	98.9%

(24 hours X 181 Days) (24 hours X 179 Days)

* Working hours for R&D and maintenance activities were included.

C. Investment plan

(1) Investment in progress

(Unit: In billions of Won)

Business area	Description	Investment period	Investment Assets	Investment effect	Total investment	Already invested	To be invested	Remarks
TFT-LCD	New / Expansion, etc.	Q3 2004~	Building/ Machinery, etc.	Capacity expansion	6,699	5,843	856	

(2) Investment Plan (Consolidated basis)

(Unit: In billions of Won)

Business area	Project	Expected yearly investment 2007 *	2008 **	2009 **	Investment effects	Remarks
TFT-LCD	New / Expansion, etc.	1,015			Capacity Expansion, etc.	

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* Expected investments in 2007 are subject to change depending on market environment.
** Expected investments in 2008 and in 2009 cannot be projected due to industry characteristics.

5. Sales

A. Sales performance

(Unit: In billions of Won)

Business area	Sales types	Items (Market)		2007 H1	2006 H1	2006
			Overseas	5,421	4,090	9,355
TFT-LCD	Products, etc.	TFT-LCD	Korea*	453	414	846
			Total	5,874	4,504	10,201

* Including local export.

B. Sales route and sales method

(1) Sales organization

As of June 30, 2007, each of IT business unit, TV business unit, and Small & Medium Displays business unit has individual sales and customer support function.

Sales subsidiaries in America, Germany, Japan, Taiwan and China (Hong Kong and Shanghai) perform sales activities in overseas countries and provide technical support to customers.

(2) Sales route

LG.Philips LCD HQ → Overseas subsidiaries (USA/Germany/Japan/Taiwan /Hong Kong/Shanghai), etc. → System integrators, Branded customers → End users

LG.Philips LCD HQ → System integrators, Branded customers → End users

(3) Sales methods and conditions

Direct sales & sales through overseas subsidiaries, etc.

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(4) Sales strategy

To secure stable sales to major PC makers and the leading consumer electronics makers globally

To increase sales of premium notebook computer products, to strengthen sales of the larger size and high-end monitor segment and to lead the large and wide LCD TV market

To diversify our market in the application segment, including products such as mobile phone, automobile navigation systems, aircraft instrumentation and medical diagnostic equipment, etc.

6. Directors & Employees

A. Members of Board of Directors as of June 30, 2007

Name	Date of Birth	Position	Business Experience
Young Soo Kwon	February 6, 1957	Joint Representative Director, President and Chief Executive Officer	President and Chief Financial Officer of LG Electronics
Ron H. Wirahadiraksa	June 10, 1960	Joint Representative Director, President and Chief Financial Officer	President and Chief Financial officer of Philips FDS
Hee Gook Lee	March 19, 1952	Director	President and Chief Technology Officer of LG Electronics
Rudy Provoost	October 16, 1959	Director	Chief Executive Officer of Philips Consumer Electronics
Bongsung Oum	March 2, 1952	Outside Director	Chairman, KIBNET Co., Ltd.
Bart van Halder	August 17, 1947	Outside Director	Member of Boards of Directors of Cosun u.a. and Air Traffic Control in the Netherlands
Ingoo Han	October 15, 1956	Outside Director	Professor, Graduate School of Management, Korea Advanced Institute of Science and Technology
Doug J. Dunn	May 5, 1944	Outside Director	Member of Boards of Directors of ARM Holdings plc, STMicroelectronics N.V., Soitec Group, Optical Metrology Innovations and TomTom International BV
Dongwoo Chun	January 15, 1945	Outside Director	Outside Director, Pixelplus

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B. Committees of the Board of Directors

Committee	Member
Audit Committee	Mr. Bongsung Oum, Mr. Bart van Halder, Mr. Ingoo Han
Remuneration Committee	Mr. Rudy Provoost, Mr. Hee Gook Lee, Mr. Doug J. Dunn, Mr. Dongwoo Chun
Outside Director Nomination and Corporate Governance Committee	Mr. Rudy Provoost, Mr. Hee Gook Lee, Mr. Bart van Halder, Mr. Dongwoo Chun

C. Director & Officer Liability Insurance

(1) Overview of Director & Officer Liability Insurance (as of June 30, 2007)

(Unit: USD)

Name of insurance	Premium paid in 2007 H1	Limit of liability	Remarks
Directors & Officers Liability Insurance		100,000,000	

* In July 2007, we renewed the director & officer liability insurance with coverage until July 2008.

(2) The approval procedure for the Director & Officer Liability Insurance

Joint Representative Directors approved the limit for liability, coverage and premiums.

(3) The insured

1. LG.Philips LCD Co., Ltd. and its subsidiaries and their respective Directors and Officers

2. Duly elected or appointed Directors or Officers, past and new Directors and Officers during the policy period

3. The estates and heirs of deceased Directors or Officers, and the legal representatives of Directors or Officers in the event of their incompetence, insolvency or bankruptcy (only if the Directors or Officers were employed at the time the acts were committed)

(4) The Covered Risks

1. The Loss to shareholders or 3rd parties, arising from any alleged Wrongful Act of a director or officer of the company in their respective capacities, in violation of their fiduciary duties

   a. Wrongful Act means any breach of duty, neglect, error, misstatement, misleading statement, omission, or act by the Directors or Officers

b. Loss means damages, judgments, settlements and Defense Costs

2. Coverage for security holder derivative action & security claims

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The Loss arising out of any security holder derivative action is paid in accordance with the Security Holder Derivative Action Inclusion Clause . Securities Loss, incurred on account of a Securities Claim against the Directors, Officers and/or the Company, is covered (except for exclusions).

(5) Exclusions

1. General Exclusions (any loss related to following items):

   Any illegal gaining of personal profit through, dishonest or criminal act;

   Remuneration payment to the Insureds without the previous approval of the stockholders, which payment was illegal;

   Profits in fact made from the purchase or sale of securities of the Company using non public information in an illegal manner;

   Payment of commissions, gratuities, benefits or any other favor provided to a political group, government official, director, officer, employee or any person having an ownership interest in any customers of the company or their agent(s), representative(s) or member(s) of their family or any other entity(ies) with which they are affiliated.

   Wrongful Acts alleged in any claim which has been reported under any policy of which this policy is a renewal or replacement;

   Any pending or prior litigation as of the inception date of this policy, or derived from the same facts as alleged in such pending or prior litigation, etc.;

   Wrongful Act which Insured knew or should reasonably have foreseen at the inception date of this policy;

   Pollutants, contamination;

   Nuclear material, radioactive contamination;

   Bodily injury, disease, death or emotional distress of any person, or damage to tangible property, loss of use of property, or injury from oral or written publication of a libel or slander, or material that violates a person's right of privacy;

   Any alleged Wrongful Act of any Subsidiary of which the insured did not own more than 50% of stock either directly or indirectly through its Subsidiaries.

2. Special Exclusions (any loss related to following items):

Punitive Damage

Nuclear Energy Liability

Mutual claim between Insureds

Claim of 15% Closely Held entity

Claim of Regulator

Professional Service liability

SEC (Securities and Exchange Commission) 16(b)

ERISA(Employee Retirement Income Security Act)

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The so called Year 2000 Problem

War & Terrorism

Asbestos/Mould liability

Patent / Copyright liability, etc.

D. Employees

(as of June 30, 2007) (Unit: person, in millions of Won)

Sex	Details of employees Office Worker	Line Worker	Others	Total	Total Salary in 2007 H1	Per Capita Salary	Average Service Year
Male	5,054	5,489		10,543	222,873	20.6	4.7
Female	362	4,491		4,853	71,278	13.8	2.7
Total	5,416	9,980		15,396	294,150	18.4	4.0

* Directors and executive officers have been excluded.

E. Stock Option

The following table sets forth certain information regarding our stock options as of June 30, 2007.

Executive Officers	Grant Date	Exercise Period From	To	Exercise Price	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
Ron H.Wirahadiraksa	April 7, 2005	April 8, 2008	April 7, 2012	(Won) 44,050	100,000	0	100,000
Duke M. Koo	April 7, 2005	April 8, 2008	April 7, 2012	(Won) 44,050	40,000	0	40,000
Woo Shik Kim	April 7, 2005	April 8, 2008	April 7, 2012	(Won) 44,050	40,000	0	40,000
Sang Deog Yeo	April 7, 2005	April 8, 2008	April 7, 2012	(Won) 44,050	40,000	0	40,000
Jae Geol Ju	April 7, 2005	April 8, 2008	April 7, 2012	(Won) 44,050	40,000	0	40,000
Total					260,000		260,000

* On July 5, 2007, Woo Shik Kim has forfeited his share of 40,000 stock options.

7. Financial Information

A. Financial Highlights (Based on Non-consolidated, Korean GAAP)

(Unit: In millions of Won)

Description	2007 H1	2006	2005	2004	2003
Current Assets	3,993,851	2,731,656	3,196,934	2,638,616	1,918,329
Quick Assets	3,199,004	1,996,280	2,725,169	2,170,617	1,644,838
Inventories	794,847	735,376	471,765	467,999	273,491

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Non-current Assets	9,273,480	10,084,191	9,798,981	6,960,077	4,295,753
Investments	486,049	361,558	213,984	168,055	34,674
Tangible Assets	8,002,006	8,860,076	8,988,459	6,366,651	3,874,428
Intangible Assets	96,109	114,182	149,894	183,471	217,982
Other Non-current Asset	689,316	748,375	446,644	241,900	168,669
Total Assets	13,267,331	12,815,847	12,995,915	9,598,693	6,214,082
Current Liabilities	2,339,541	2,694,389	2,594,282	1,900,765	2,044,005
Non-current Liabilities	3,941,870	3,231,782	2,726,036	1,925,286	1,276,045
Total Liabilities	6,281,411	5,926,171	5,320,318	3,826,051	3,320,050
Capital Stock	1,789,079	1,789,079	1,789,079	1,626,579	1,450,000
Capital Surplus	2,311,071	2,275,172	2,279,250	1,012,271	
Other Accumulated Comprehensive Income	(-)13,491	(-)13,948	(-)1,418	42,118	7,803
Retained Earnings	2,899,261	2,839,373	3,608,686	3,091,674	1,436,229
Total Shareholder's Equity	6,985,920	6,889,676	7,675,597	5,772,642	2,894,032
Sales Revenues	5,873,586	10,200,660	8,890,155	8,079,891	6,031,261
Operating Income	(-)98,613	(-)945,208	447,637	1,640,708	1,086,517
Ordinary Income	(-)129,334	(-)1,024,369	367,281	1,683,067	1,009,731
Net Income	59,888	(-)769,313	517,012	1,655,445	1,019,100

* For the purpose of comparison, Financial Statements for FY 2003 were reclassified according to changes in the Statements of Korean Financial Accounting Standards.

B. R&D Expense

(1) Summary

(Unit: In millions of Won)

Account		2007 H1	2006	2005
	Direct Material Cost	129,910	291,714	253,930
	Direct Labor Cost	52,955	87,078	72,142
	Depreciation Expense	11,356	20,671	11,710
	Others	18,023	36,649	23,979
	Total R&D Expense	212,244	436,112	361,761
Accounting	Selling & Administrative Expenses	51,026	82,635	55,057
Treatment	Manufacturing Cost	161,218	353,477	306,704
R&D Expense / Sales Ratio [Total R&D Expense/Sales for the period×100]		3.61%	4.28%	4.07%

* Capex for R&D, Manufacturing Cost for R&D test run are excluded.

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(2) R&D achievements

[Achievements in 2004]

1) Development of 20.1-inch AMOLED

   Joint development of 20.1-inch AMOLED with LG Electronics

   Development of world s largest 20.1-inch wide AMOLED based on LTPS technology

2) Development of copper bus line

   Next generation LCD technology to significantly improve brightness, definition and resolution, etc.

3) Development and mass production of world's largest TFT-LCD panel for Full-HD TV (55-inch) in October 2004.

   Stitch Lithography and Segmented Circuit Driving to cope with large-size LCD Panel

   Achievement of High Contrast Ratio and Fast Response Time through new technologies

   Application of innovative panel technology to solve the weak point (gravity/touch stains) of large size

4) Development of Ultra High Resolution Product (30-inch)

   World's 1st success in mass production of LCM applying Cu Line(source & gate Area)

   Achievement of Ultra High Resolution (2560x1600 : 101ppi)

5) Development of the world s lowest power-consumption, 32-inch Wide LCD TV Model

   Development of the world s lowest power consumption, under 90W model (EEFL applied)

   High Contrast Ratio, Fast Response Time (DCR + ODC applied)

[Achievements in 2005]

6) Development of High Luminance and High Color Gamut 17-inch wide LCD Panel for Notebook Computer

World s 1st 500nit luminance and 72% color gamut in 17-inch wide for Notebook Computer

Development of 6200nit luminance backlight

7) Development of world s largest 10.1-inch Flexible Display

Joint development with E-ink Corporation

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8) 37-inch, 42-inch, 47-inch Full-HD Model Development, applying Low Resistance Line (Copper bus Line)

World's 1st mass production of copper bus line model

Realize Full HD Resolution (1920x1080)

9) 37-inch wide LCD Model development which is the world s best in power consumption

The lowest power consumption of below 120W (applying EEFL)

High Contrast Ratio, Fast Response Time with DCR, ODC Technology.

[Achievements in 2006]

10) Development of High Brightness/Color gamut 17-inch wide slim LCD for Notebook Computer

Slim model (10t→7t), featuring 500nit, NTSC 72%

Development of Slim and High Brightness Backlight

11) World s largest size 100-inch TFT-LCD development

High quality image without noise or signal distortion, applying low resistance copper bus line

High dignity picture for Full HDTV

12) 32-inch/42-inch HCFL Scanning Backlight applied LCD TV Model Development

Realization of MBR (Motion Blur Reduction) by application of Backlight Scanning Technology

Lamp Quantity Reduction by HCFL (Hot Cathode Fluorescent Lamp) Application

13) Development of World's largest 20.1-inch TFT-LCD for notebook computers

S-IPS Mode, sRGB, Realization of DCR 3000:1 by Backlight Control, Brightness 300nit

14) Ultra-slim TFT-LCD development for mobile phones

Realization of 1.3t by reducing light guide plate & glass thickness

15) The fast response 2.0 TFT-LCD development for mobile phones

Realization of high quality image by new liquid crystal development (25ms→16ms)

16) Wide Color Gamut 30 Wide TFT-LCD monitor development

Realization of 92% high color gamut by application of WCG CCFL

17) LGE Chassis integration model (Tornado) development (32 /37 /42)

Maximized cost reduction by co-design with LGE & LPL

Improved product competitiveness by thin & light design

18) 32 120Hz new-mode panel development

Cost reduction & spec. upgrade by new-mode panel

MBR (Motion Blur Reduction) by 120Hz driving

19) CI model development (new concept BL)

Cost reduction and productivity improvement by new concept backlight

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[Achievements in 2007]

20) Development of 1st Poland model

   32-inch HD model

21) Development of socket type backlight model

   42-inch FHD model

   47-inch HD/FHD model

22) Development of new concept backlight model

   32-inch HD model

   42-/47-inch model (under development)

23) Development of interlace image sticking free technology and model

   Improvement of low picture quality caused by TV interlace signal

24) Development of TFT-LCD with ODF (One Drop Filling) for mobile phone application

   Our first ODF model for mobile phone application (1.52 inch)

25) Development of GIP (Gate in Panel) application model 15XGA

   Removed gate drive IC

   Reduction of material cost and shortened assembly process

26) 24-inch TN (92%) monitor model development

The world s first large-size panel TN application

Realization of 92% high color gamuton the world s largest TN panel

27) 15.4-inch LED backlight applied model development

The world s first 15.4-inch wide LED-applied display panel for notebooks

The world s largest LED-applied panel for notebooks

28) Development of FHD 120Hz display panel

37- to 47-inch FHD model

29) Development of backlight localization model

32-inch HD model

30) Development of enhanced Dynamic Contrast Ratio technology

32-inch HD Model

Enhanced from 5000:1 to 10000:1

31) Development of technology that improves panel transmittance

Expected to be applied to new model

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C. Domestic Credit Rating

Subject	Month of Rating	Credit Rating	Rating Agency (Rating range)
Corporate Debenture	April 2004	AA-	National Information & Credit Evaluation, Inc.
	October 2004	AA-	
	March 2005	AA-	
	June 2005	AA-	
	June 2006	AA-	
	December 2006	A+	
	June 2007	A+	(AAA ~ D)
	May 2004	AA-	Korea Investors Service, Inc.
	October 2004	AA-	
	March 2005	AA-	
	June 2005	AA-	
	June 2006	AA-	
	January 2007	A+	(AAA ~ D)
	June 2007	A+	
Commercial Paper	April 2004	A1	National Information & Credit Evaluation, Inc.
	December 2004	A1	
	June 2005	A1	
	January 2006	A1	
	June 2006	A1	
	December 2006	A1	
	June 2007	A1	(A1 ~ D)
	May 2004	A1	Korea Investors Service, Inc.
	October 2004	A1	
	June 2006	A1	
	January 2007	A1	
	June 2007	A1	(A1 ~ D)

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D. Remuneration for directors in 2007 H1

(Unit: In millions of Won)

Classification	Salary Paid	Approved Salary at Shareholders Meeting	Per Capita Average Salary Paid	Remarks
Inside Directors (4 persons)	699	13,400	175	
Outside Directors (5 persons)	139		28	Audit committee consists of three outside directors.
Inside Director (1 person)	2,111		2,111	Payment of severance benefits

*Salary paid is calculated on the basis of actually paid salary except accrued salary and severance benefits.

E. Derivative contracts

(1) Foreign currency forward contracts

(Unit: In millions)

Contracting party	Selling position	Buying position	Contract foreign exchange rate	Maturity date	
HSBC and others	US$ 1,713	(Won) 1,598,153	(Won)916.40:US$1 - (Won)955.55:US$1	July 2, 2007	Feb. 4, 2008
DBS and others	EUR 85	(Won) 105,052	(Won)1,203.10:EUR1 - (Won)1,259.72:EUR1	July 9, 2007	Nov. 19, 2007
Woori Bank and others	(Won) 222,026	JP¥ 28,000	(Won)7.662:JP¥1 - (Won)8.287:JP¥1	July 12, 2007	Dec. 14, 2007
Hana Bank	US$ 8	JP¥ 1,000	JP¥120.01:US$1	Sept. 14, 2007	

(2) Cross Currency Swap

(Unit: In millions)

Contracting party	Contract Amount		Contract interest rate	Maturity date
Kookmin Bank and others	Buying position	US$ 150	3M Libor ~ 3M Libor+0.53%	August 29, 2011 ~ January 31, 2012
	Selling position	(Won) 143,269	4.54%~5.35%	

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(3) Interest Rate Swap

(Unit: In millions)

Contracting party	Contract Amount		Contract interest rate		Maturity date
Standard Chartered First Bank Korea	US$	150	Floating Rate Receipt Fixed Rate Payment	6 Month Libor 5.375% ~ 5.644%	May 21, 2009 ~ May 24, 2010

(4) Currency Option

(Unit: In millions)

	USD Put Option		USD Call Option			
Contracting party	Buying Position		Selling Position		Strike Price	Maturity date
Korea Development Bank and others	US$	70	US$	70	(Won)922.0:US$1 - (Won)933.2:US$1	Aug. 28, 2007 - Oct. 11, 2007

	JPY Put Option		JPY Call Option			
Contracting party	Buying Position		Selling Position		Strike Price	Maturity date
Citi Bank and others	JP¥	23,000	JP¥	23,000	(Won)7.4457:JP¥1 ~ (Won)8.1000:JP¥1	Aug. 14, 2007 - Dec. 12, 2007

F. Status of Equity Investment as of June 30, 2007

Company	Total issued and outstanding shares	Number of shares owned by us	Ownership ratio
LG.Philips LCD America, Inc.	5,000,000	5,000,000	100%
LG.Philips LCD Japan Co., Ltd.	1,900	1,900	100%
LG.Philips LCD Germany GmbH	960,000	960,000	100%
LG.Philips LCD Taiwan Co., Ltd.	11,550,000	11,549,994	100%
LG.Philips LCD Nanjing Co., Ltd.(Note 1)	*	*	100%
LG.Philips LCD Hong Kong Co., Ltd.	115,000	115,000	100%
LG.Philips LCD Shanghai Co., Ltd.	*	*	100%
LG.Philips LCD Poland Sp. z o.o.(Note 2)	4,103,277	4,103,277	100%
LG.Philips LCD Guangzhou Co., Ltd. (Note 3)	*	*	100%
Paju Electric Glass Co., Ltd.	3,600,000	1,440,000	40%

* No shares have been issued in accordance with the local laws and regulations.

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LG.Philips LCD Co., Ltd.

Interim Non-Consolidated Financial Statements

June 30, 2007 and 2006, and December 31, 2006

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LG.Philips LCD Co., Ltd.

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June 30, 2007 and 2006, and December 31, 2006

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Report of Independent Accountants

To the Board of Directors and Shareholders of

LG.Philips LCD Co., Ltd.

We have reviewed the accompanying non-consolidated balance sheet of LG.Philips LCD Co., Ltd. (the Company) as of June 30, 2007 and the related non-consolidated statements of income, cash flows for the three-month and six-month periods ended June 30, 2007 and 2006, and non-consolidated statements of changes in shareholders equity for the three-month and six-month periods ended June 30, 2007, expressed in Korean won. These interim financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these interim financial statements based on our reviews.

We conducted our reviews in accordance with the quarterly and semi-annual review standards established by the Securities and Futures Commission of the Republic of Korea. These standards require that we plan and perform our review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the non-consolidated interim financial statements referred to above are not presented fairly, in all material respects, in accordance with accounting principles generally accepted in the Republic of Korea.

We have audited the non-consolidated balance sheet of LG.Philips LCD Co., Ltd. as of December 31, 2006 and the related non-consolidated statements of income, appropriations of retained earnings and cash flows for the year then ended, in accordance with auditing standards generally accepted in the Republic of Korea. We expressed an unqualified opinion on those financial statements in our audit report dated February 13, 2007. These financial statements are not included in this review report. The non-consolidated balance sheet as of December 31, 2006, presented herein for comparative purposes, is consistent, except for the application of the Statements of Korean Financial Accounting Standards No 21, in all material respects, with the above audited balance sheet as of December 31, 2006.

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Accounting principles and review standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of operations and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to review such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or review standards and their application in practice.

/s/ Samil PricewaterhouseCoopers
Seoul, Korea
July 25, 2007

This report is effective as of July 25, 2007, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the review report should understand that there is a possibility that the above review report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

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LG.Philips LCD Co., Ltd.

Non-Consolidated Balance Sheets

June 30, 2007 and December 31, 2006

(Unaudited)

(in millions of Korean won)	**2007**	**2006**
Assets		
Current assets		
Cash and cash equivalents	(Won) 1,141,428	(Won) 788,066
Available-for-sale securities	23	23
Trade accounts and notes receivable, net (Note 15)	1,604,542	1,049,408
Other accounts receivable, net (Note 15)	27,227	27,036
Accrued income, net	3,761	820
Advanced payments, net	3,471	5,431
Prepaid expenses	65,816	22,051
Prepaid value added tax	55,405	52,837
Other current assets (Note 9)	26,075	50,608
Deferred income tax assets (Note 10)	271,256	
Inventories, net (Note 4)	794,847	735,376
Total current assets	3,993,851	2,731,656
Long-term financial instruments (Note 3)	13	13
Equity-method investments	486,036	361,545
Property, plant and equipment, net (Note 5)	8,002,006	8,860,076
Intangible assets, net	96,109	114,182
Non-current guarantee deposits	17,708	17,338
Long-term prepaid expenses	169,362	137,974
Deferred income tax assets (Note 10)	502,246	593,063
Total assets	(Won) 13,267,331	(Won) 12,815,847
Liabilities and Shareholders Equity		
Current liabilities		
Trade accounts and notes payable (Note 15)	(Won) 960,195	(Won) 943,924
Other accounts payable (Note 15)	641,435	1,066,642
Advances received	7,057	461
Withholdings	11,673	9,045
Accrued expenses	88,297	67,814
Warranty reserve	36,258	28,015
Current portion of long-term debts and debentures (Note 6)	576,048	553,089
Other current liabilities (Note 9)	18,578	25,399
Total current liabilities	2,339,541	2,694,389
Debentures, net of current portion and discounts on debentures (Note 7)	2,798,367	2,319,391
Long-term debts, net of current portion (Note 7)	1,049,833	830,540
Accrued severance benefits, net	93,670	81,851
Total liabilities	6,281,411	5,926,171

Commitments and contingencies (Note 9)

Shareholders equity		
Capital stock		
Common stock, (Won)5,000 par value per share	1,789,079	1,789,079
Capital surplus	2,311,071	2,275,172
Accumulated other comprehensive loss, net	(13,491)	(13,948)
Retained earnings	2,899,261	2,839,373
Total shareholders equity	6,985,920	6,889,676
Total liabilities and shareholders equity	(Won) 13,267,331	(Won) 12,815,847

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

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LG.Philips LCD Co., Ltd.

Non-Consolidated Statements of Income

Three-Month and Six-Month Periods Ended June 30, 2007 and 2006

(Unaudited)

(in millions of Korean won, except per share amounts)	For the three-month periods ended June 30, 2007	For the three-month periods ended June 30, 2006	For the six-month periods ended June 30, 2007	For the six-month periods ended June 30, 2006
Sales (Notes 15 and 16)	(Won) 3,267,223	(Won) 2,086,362	(Won) 5,873,586	(Won) 4,504,035
Cost of sales (Notes 12 and 15)	2,995,651	2,392,653	5,713,555	4,666,630
Gross profit (loss)	271,572	(306,291)	160,031	(162,595)
Selling and administrative expenses (Note 13)	132,892	138,897	258,644	247,328
Operating income (loss)	138,680	(445,188)	(98,613)	(409,923)
Non-operating income				
Interest income	11,510	7,323	18,878	17,290
Rental income	1,044	2,234	2,051	4,043
Commission earned	11,826	11,556	17,796	12,544
Foreign exchange gains	18,902	48,963	42,543	111,317
Gain on foreign currency translation	23,178	27,502	13,302	46,640
Gain on valuation of equity method investments	19,291	68,445	28,279	81,702
Gain on disposal of property, plant and equipment	626	90	2,127	90
Others	1,702	2,910	3,982	6,584
	88,079	169,023	128,958	280,210
Non-operating expenses				
Interest expenses	49,653	35,302	93,939	71,036
Foreign exchange losses	26,671	47,716	40,770	133,867
Loss on foreign currency translation	10,332	32,484	10,332	32,484
Donations	116	1,067	117	1,254
Loss on disposal of accounts receivable		2,887	1,805	3,063
Loss on valuation of equity method investments	17,463	57	12,233	72
Loss on disposal of property, plant and equipment	479	1	482	1,046
Loss on disposal of available-for-sale securities		35		35
Ramp up costs		7,104		18,043
Others	1	1	1	5
	104,715	126,654	159,679	260,905
Income (loss) before income tax benefit	122,044	(402,819)	(129,334)	(390,618)
Income tax benefit	106,443	81,299	189,222	116,616
Net income (loss)	(Won) 228,487	(Won) (321,520)	(Won) 59,888	(Won) (274,002)
Earnings (loss) per share (Note 14)	(Won) 639	(Won) (899)	(Won) 167	(Won) (766)

Diluted earnings (loss) per share (Note 14)	(Won)	631	(Won)	(899)	(Won)	167	(Won)	(766)

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

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LG.Philips LCD Co., Ltd.

Non-Consolidated Statements of Cash Flows

Three-Month and Six-Month Periods Ended June 30, 2007 and 2006

(Unaudited)

(in millions of Korean won)	For the three-month periods ended June 30, 2007	2006	For the six-month periods ended June 30, 2007	2006
Cash flows from operating activities				
Net income (loss)	(Won) 228,487	(Won) (321,520)	(Won) 59,888	(Won) (274,002)
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Amortization of intangible assets	11,256	13,694	22,448	24,678
Depreciation	637,891	588,142	1,318,857	1,191,944
Loss (gain) on disposal of property, plant and equipment, net	(147)	(89)	(1,645)	956
Loss (gain) on foreign currency translation, net	(13,434)	4,539	(3,559)	(18,185)
Amortization of discount on debentures	13,489	9,141	21,983	18,184
Provision for warranty reserve	16,473	5,980	28,945	12,573
Provision for severance benefits	21,106	15,747	39,429	31,385
Loss (gain) on valuation of equity method investments, net	(1,828)	(68,388)	(16,046)	(81,630)
Loss on disposal of available-for-sale securities		35		35
Stock compensation cost		(11)		
	684,806	568,790	1,410,412	1,179,940
Changes in operating assets and liabilities				
Decrease (increase) in trade accounts and notes receivable	(625,115)	248,028	(560,800)	84,270
Decrease (increase) decrease in inventories	36,516	(156,335)	(59,471)	(358,112)
Decrease (increase) in other accounts receivable	61	(2,102)	(431)	4,041
Decrease (increase) in accrued income	(1,723)	329	(2,941)	325
Decrease (increase) in advance payments	1,077	(1,687)	1,960	2,197
Decrease (increase) in prepaid expenses	31,786	15,391	(29,317)	(35,092)
Decrease (increase) in prepaid value added tax	(26,295)	(17,172)	(2,568)	37,739
Increase in current deferred income tax	(274,438)	(18,645)	(267,947)	(31,802)
Decrease (increase) in other current assets	6,090	(10,074)	9,463	24,409
Increase in long-term prepaid expenses	(1,109)	(4,879)	(45,835)	(42,644)
Decrease (increase) in non-current deferred income tax	167,997	(57,787)	78,726	(84,815)
Increase (decrease) trade accounts and notes payable	71,520	(72,700)	18,682	(24,462)
Decrease in other accounts payable	(74,694)	(19,617)	(33,290)	(55,050)
Increase in advances received	4,330	236	6,596	2,932
Increase (decrease) in withholdings	4,492	(1,201)	2,629	(5,406)
Increase (decrease) in accrued expenses	22,761	17,920	20,483	(1,117)
Decrease in income tax payable		(14,256)		(19,499)
Decrease in warranty reserve	(11,916)	(5,338)	(20,702)	(10,221)
Decrease in other current liabilities	(647)		(5,887)	(2,964)
Accrued severance benefits transferred from affiliated company, net	64	976	2,020	31,385
Payments of severance benefits	(31,877)	(9,084)	(38,267)	(51,291)
Decrease in severance insurance deposit	8,754	3,976	8,573	9,801
Decrease in contribution to National Pension Fund	72	36	65	37

	(692,294)	(103,985)	(918,259)	(525,339)
Net cash provided by operating activities	220,999	143,285	552,041	380,599

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LG.Philips LCD Co., Ltd.

Non-Consolidated Statements of Cash Flows

Three-Month and Six-Month Periods Ended June 30, 2007 and 2006

(Unaudited)

(in millions of Korean won)	For the three-month periods ended June 30, 2007	For the three-month periods ended June 30, 2006	For the six-month periods ended June 30, 2007	For the six-month periods ended June 30, 2006
Cash flows from investing activities				
Proceeds from non-current guarantee deposits	405	10,716	405	10,721
Proceeds from disposal of property, plant and equipment	5,274	785	19,548	785
Proceeds from disposal of available-for-sale securities		349		349
Proceeds from dividends of equity method investments	1,440		1,440	
Acquisition of equity-method investments	(47,060)		(102,230)	
Payments of non-current guarantee deposits	(754)	(2)	(775)	(4,585)
Acquisitions of available-for-sale securities		(30)		(45)
Acquisitions of property, plant and equipment	(465,613)	(936,727)	(869,654)	(1,763,331)
Acquisition of intangible assets	(2,156)	(1,919)	(4,213)	(3,885)
Net cash used in investing activities	(508,464)	(926,828)	(955,479)	(1,759,991)
Cash flows from financing activities				
Repayment of current portion of long-term debts	(5,578)		(25,211)	(9,783)
Proceeds from issuance of long-term debts		94,450	273,014	244,450
Proceeds from issuance of bond	508,997	399,600	508,997	399,600
Net cash provided by financing activities	503,419	494,050	756,800	634,267
Net increase (decrease) in cash and cash equivalents	215,954	(289,493)	353,362	(745,125)
Cash and cash equivalents				
Beginning of the period	925,474	1,009,393	788,066	1,465,025
End of the period	(Won) 1,141,428	(Won) 719,900	(Won) 1,141,428	(Won) 719,900

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

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LG.Philips LCD Co., Ltd.

Non-Consolidated Statement of Changes in Shareholders Equity

Three-Month and Six-Month Periods Ended June 30, 2007

(Unaudited)

(in millions of Korean won)	Capital stock	Capital surplus	Accumulated other comprehensive Income	Retained earnings	Total
Balance as of January 1, 2007	(Won) 1,789,079	(Won) 2,275,172	(Won) (13,948)	(Won) 2,839,373	(Won) 6,889,676
Net income				59,888	59,888
Changes in equity securities			9,181		9,181
Gain on valuation of derivatives			(12,094)		(12,094)
Loss on valuation of derivatives			3,370		3,370
Changes in consideration for conversion rights		35,899			35,899
Balance as of June 30, 2007	(Won) 1,789,079	(Won) 2,311,071	(Won) (13,491)	(Won) 2,899,261	(Won) 6,985,920
Balance as of April 1, 2007	(Won) 1,789,079	(Won) 2,275,172	(Won) (22,144)	(Won) 2,670,774	(Won) 6,712,881
Net income				228,487	228,487
Changes in equity securities			264		264
Gain on valuation of derivatives			5,318		5,318
Loss on valuation of derivatives			3,071		3,071
Changes in consideration for conversion rights		35,899			35,899
Balance as of June 30, 2007	(Won) 1,789,079	(Won) 2,311,071	(Won) (13,491)	(Won) 2,899,261	(Won) 6,985,920

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

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2007 and 2006, and December 31, 2006

(Unaudited)

1. The Company

LG.Philips LCD Co., Ltd. (the Company) was incorporated in 1985 under its original name of LG Soft, Ltd., under the Commercial Code of the Republic of Korea and commenced the manufacturing and sale of Thin Film Transistor Liquid Crystal Display (TFT LCD) in 1999. On July 26, 1999, LG Electronics Inc., Koninklijke Philips Electronics N.V. and the Company entered into a joint venture agreement. Pursuant to the agreement, the Company changed its name from LG LCD CO., Ltd. to LG.Philips LCD Co., Ltd. effective August 27, 1999 and on August 31, 1999, the Company issued new shares of common stock to Koninklijke Philips Electronics N.V. for proceeds of (Won)725,000 million and Koninklijke Philips Electronics N.V. acquired a 50% interest in LG LCD Co., Ltd.

The Company listed its shares with the Korea Stock Exchange and with US Securities and Exchange Commission in July 2004.

As of June 30, 2007, the Company has outstanding capital stock amounting to (Won) 1,789,079 million.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its interim non-consolidated financial statements are same as those followed by the Company in its preparation of annual non-consolidated financial statements and are summarized below:

Basis of Financial Statement Presentation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language non-consolidated financial statements. Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company s financial position, results of operations, cash flow, or changes in shareholders equity is not presented in the accompanying non-consolidated financial statements.

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2007 and 2006, and December 31, 2006

(Unaudited)

Accounting Estimates

The preparation of the financial statements requires management to make certain estimates and assumptions that affect amounts reported therein. Although these estimates are based on management s best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial Supervisory Commission. As SKFAS Nos. 18 through 20 became applicable to the Company on January 1, 2006, the Company adopted these Standards in its financial statements covering periods beginning January 1, 2006.

And as SKFAS Nos. 21 through 23, including No.11, became effective for the Company on January 1, 2007, the Company adopted these Standards in its financial statements as of and for the six-month period ended June 30, 2007. However, the non-consolidated statement of change in shareholders equity presented for comparative purposes is not stated in accordance with SKFAS No. 21.

3. Financial Instruments

As of June 30, 2007 and December 31, 2006, long-term financial instruments represent key money deposits required to maintain checking accounts and accordingly, the withdrawal of such deposits is restricted.

4. Inventories

Inventories as of June 30, 2007 and December 31, 2006, consist of the following:

(in millions of Korean won)	**2007**	**2006**
Finished products	(Won) 387,226	(Won) 311,808
Work-in-process	219,364	312,231
Raw materials	135,006	129,373
Supplies	102,083	101,068
	843,679	854,480
Less: Valuation loss	(48,832)	(119,104)
	(Won) 794,847	(Won) 735,376

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2007 and 2006, and December 31, 2006

(Unaudited)

5. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2007 and December 31, 2006, consist of the following:

(in millions of Korean won)	**2007**	**2006**
Buildings	(Won) 1,903,945	(Won) 1,875,511
Structures	170,673	170,631
Machinery and equipment	14,002,583	13,754,035
Tools	136,866	138,303
Furniture and fixtures	417,935	411,459
Vehicles	10,313	12,293
Others	8,460	8,460
	16,650,775	16,370,692
Less: Accumulated depreciation	(10,020,726)	(8,715,763)
Government subsidies	(2,858)	(3,015)
	6,627,191	7,651,914
Land	316,969	317,161
Machinery-in-transit	88,000	42,010
Construction-in-progress	969,846	848,991
	(Won) 8,002,006	(Won) 8,860,076

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LG. Philips LCD Co., Ltd.

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(Unaudited)

6. Current Portion of Long-Term Debts

Current portion of long-term debts and debentures as of June 30, 2007 and December 31, 2006, consist of the following:

(in millions of Korean won)

Type of borrowing	Creditor	Annual interest rates (%) as of June 30, 2007	2007	2006
Long-term debt in won currency loans	Korea Export-Import Bank	5.88-6.08	(Won) 46,767	(Won) 39,267
Corporate bonds in won currency		5.0	300,000	300,000
Long-term debt in foreign currency debentures of US$200 million		3M Libor + 0.6	185,140	185,920
Long-term debt in foreign currency loans of US$50 million	Korea Export-Import Bank and others	6M Libor + 1.2 3M Libor + 0.99 1.35	45,822	32,071
			577,729	557,258
Less: Discounts on debentures			(1,681)	(4,169)
			(Won) 576,048	(Won) 553,089

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LG. Philips LCD Co., Ltd.

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June 30, 2007 and 2006, and December 31, 2006

(Unaudited)

7. Long-Term Debts

Long-term debts as of June 30, 2007 and December 31, 2006, consist of the following:

(in millions of Korean won)

Type of borrowing	Annual interest rates (%) as of June 30, 2007	2007	2006
Won currency debentures			
Non-guaranteed, payable through 2010	3.5 5.0	(Won) 1,550,000	(Won) 1,550,000
Private debentures, payable in 2011	5.3 5.89	600,000	600,000
Less: Current portion		(300,000)	(300,000)
Discounts on debentures		(13,171)	(16,036)
		1,836,829	1,833,964
Convertible bonds[1]			
US dollar-denominated bond, payable through 2012		995,335	483,780
Add: Call premium		170,401	84,613
Less: Discount on debentures		(4,304)	(2,139)
Conversion adjustment		(199,894)	(80,827)
		961,538	485,427
		(Won) 2,798,367	(Won) 2,319,391
Won currency loans			
General loans	5.43 6.08,	(Won) 218,750	(Won) 238,383
	3.50	14,634	14,634
Less: Current portion		(46,767)	(39,267)
		186,617	213,750
Foreign currency loans			
General loans	3M Libor+0.99 1.35, 6.01, 3M Libor+0.35 0.53, 6M Libor+0.41, 6M Libor +0.69 1.2	909,038	648,861
Less: Current portion		(45,822)	(32,071)

	863,216	616,790
	(Won) 1,049,833	(Won) 830,540

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LG. Philips LCD Co., Ltd.

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(Unaudited)

[1] On April 19, 2005, the Company issued US dollar-denominated convertible bonds totaling US$475 million, with a zero coupon rate. On or after June 27, 2005 through April 4, 2010, the bonds are convertible into common shares at a conversion price of (Won)58,251 per share of common stock, subject to adjustment based on certain events. The bonds will mature in five years from the issue date and will be repaid at 117.49% of their principal amount at maturity. The bondholders have a put option to be repaid at 108.39% of their principal amount on October 19, 2007.

On April 18, 2007, the Company issued US dollar-denominated convertible bonds totaling US$550 million, with a zero coupon rate. On or after April 19, 2008 through April 3, 2012, the bonds are convertible into common shares at a conversion price of (Won)49,070 per share of common stock, subject to adjustment based on certain events. The bonds will mature in five years from the issue date and will be repaid at 116.77% of their principal amount at maturity. The bondholders have a put option to be repaid at 109.75% of their principal amount on April 18, 2010.

As of June 30, 2007, the number of shares convertible from the outstanding convertible bonds is 18,740,915.

As of June 30, 2007, foreign currency debentures denominated in U.S. dollars amount to US$200 million (December 31, 2006: US$200 million) and foreign currency loans denominated in U.S. dollars amount to US$982 million (December 31, 2006: US$698 million).

8. Stock Appreciation Plan

On April 7, 2005, the Company granted 450,000 shares of stock appreciations rights (SARs) to certain executives. Under the terms of this plan, the executives, upon exercising their SARs, are entitled to receive cash equal to the excess of the market price of the Company s common stock over the exercise price of (Won)44,050 per share. The exercise price decreased from (Won)44,260 to (Won)44,050 due to the additional issuance of common stock in 2005. These SARs are exercisable starting April 8, 2008, through April 7, 2012. Additionally, when the increase rate of the Company s share price is the same or less than the increase rate of the Korea Composite Stock Price Index (KOSPI) over the three-year period following the grant date, only 50% of the initially granted shares is exercisable.

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(Unaudited)

The options activity under the SARs as of June 30, 2007 and December 31, 2006, consist of the following:

	2007		2006	
	Number of shares under SARs	Weighted average exercise price	Number of shares under SARs	Weighted average exercise price
Beginning	260,000	44,050	410,000	44,050
Granted				
Cancelled/Expired [1]			150,000	44,050
Exercised				
Ending	260,000	44,050	260,000	44,050
Exercisable as of June 30, 2007				

1 Options cancelled due to the retirement of several executive officers.

The Company did not recognize any compensation costs in 2007 as market price is below the exercise price as of June 30, 2007.

9. Commitments and Contingencies

As of June 30, 2007, the Company has bank overdraft agreements with various banks amounting to (Won)59,000 million.

As of June 30, 2007, the Company has a revolving credit facility agreement with several banks totaling (Won)200,000 million and US$100 million.

As of June 30, 2007, the Company has agreements with several banks for U.S. dollar denominated accounts receivable negotiating facilities of up to an aggregate of US$1,203.5 million. The Company has agreements with several banks in relation to the opening of letters of credit amounting to (Won)90,000 million and US$123.5 million.

The Company has repayment guarantee from ABN AMRO Bank amounting to US$8.5 million relating to value-added tax payments in Poland.

As of June 30, 2007, the Company entered into a payment guarantee agreements with a syndicate of banks including Kookmin bank and Societe Generale in connection with a EUR 140 million term loan credit facility LG.Philips LCD Poland entered into.

As of June 30, 2007, there are no negotiated foreign currency receivables.

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(Unaudited)

In October 2006, the subsidiaries entered into a five-year accounts receivable selling program with Standard Chartered Bank, selling accounts receivables of four subsidiaries, namely, LG. Philips LCD America Inc., LG. Philips LCD Germany GmbH, LG. Philips LCD Shanghai CO., Ltd. and LG. Philips LCD Hong Kong, on a revolving basis, of up to US$600 million. The Company joined this program in April 2007. As of June 30, 2007, the amount of accounts receivables which was recorded as sales is (Won)34,943 million. Losses including the loss on sale of receivables, various program and facility fees associated with the Program totaled approximately (Won)313 million for the six-month period ended June 30, 2007.

As of June 30, 2007, in relation to its TFT-LCD business, the Company has technical license agreements with Hitachi and others, and has trademark license agreements with LG Corporation and Koninklijke Philips Electronics N.V.

The Company enters into foreign currency forward contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy. The use of foreign currency forward contracts allows the Company to reduce its exposure to the risk that the eventual Korean won cash outflows resulting from operating expenses, capital expenditures, purchasing of materials and debt service will be adversely affected by changes in exchange rates.

A summary of these contracts follows:

(in millions)					**Contract foreign**	
Contracting party	**Selling position**		**Buying position**		**exchange rate**	**Maturity date**
HSBC and others	US$	1,713	(Won)	1,598,153	(Won)916.40:US$1- (Won)955.55:US$1	July 2, 2007 - Feb. 4, 2008
DBS and others	EUR	85	(Won)	105,052	(Won)1,203.10:EUR1- (Won)1,259.72:EUR1	July 9, 2007 - Nov. 19, 2007
Woori Bank and others	(Won)	222,026	JP¥	28,000	(Won)7.662:JP¥1- (Won)8.287:JP¥1	July 12, 2007 - Dec. 14, 2007
Hana Bank	US$	8	JP¥	1,000	JP¥120.01:US$1	Sept. 14, 2007

As of June 30, 2007, the Company recorded unrealized gains and losses on outstanding foreign currency forward contracts of (Won)16,525 million and (Won)12,645 million, respectively. Total unrealized gains and losses of (Won)1,220 million and (Won)1,839 million, respectively, were charged to income for the six-month period ended June 30, 2007, as these contracts did not meet the requirements for a cash flow hedge. Net unrealized gains and losses, net of related taxes, incurred relating to cash flow hedges from forecasted exports, were recorded as accumulated other comprehensive income.

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(Unaudited)

The forecasted hedged transactions are expected to occur by February 4, 2008. The aggregate amount of all deferred gains and losses of (Won)15,305 million and (Won)10,806 million, respectively, recorded net of tax under accumulated other comprehensive income, are expected to be included in the determination of gain and loss within a year from June 30, 2007.

For the six-month period ended June 30, 2007, the Company recorded realized gains of (Won)22,198 million (2006: (Won)149,897million) on foreign currency forward contracts upon settlement, and for the six-month period ended June 30, 2007, realized losses amounted to (Won)22,422 million (2006: (Won)34,503 million).

The Company entered into cross-currency swap contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy and to manage the exposure to changes in interest rates related to floating rate notes.

A summary of such contracts follows:

(in millions)

Contracting party	Buying position	Selling position	Contract foreign exchange rate	Maturity date
Kookmin Bank and others	US$ 150			Aug. 29, 2011
			3M Libor ~ 3M Libor + 0.53%	Jan. 31, 2012
		(Won) 143,269	4.54% - 5.35%	

As of June 30, 2007, unrealized gains of (Won)1,701 million were recognized as accumulated other comprehensive income as these contracts fulfill the requirements for hedge accounting for financial statement purposes, while unrealized losses of (Won)1,039 million were charged to current income as these contracts do not fulfill those requirements.

For the six-month period ended June 30, 2007, the Company recorded realized gains of (Won)419 million (2006: losses of (Won)620 million) and no realized losses (2006: (Won)5,810 million) on cross-currency swap contracts upon settlement.

The Company entered into interest rate swap contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy and to manage the exposure to changes in interest rates related to floating rate notes.

A summary of such contracts follows:

(in millions)

Contracting party	Contract Amount	Contract foreign exchange rate		Maturity date
SC First Bank	US$ 150	Accept floating rate	6M Libor	
		Pay fixed rate	5.375% -5.644%	May 21, 2009 - May 24, 2010

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(Unaudited)

As of June 30, 2007, unrealized losses of (Won)851 million were recognized as accumulated other comprehensive income as these contracts fulfill the requirements for hedge accounting for financial statement purposes.

The Company entered into option contracts to manage the exposure to changes in currency exchange rates in accordance with its foreign currency risk management policy and to manage the exposure to changes in interest rates related to floating rate notes. These transactions do not meet the requirements for hedge accounting for financial statement purposes. Therefore, the resulting realized and unrealized gains or losses, measured by quoted market prices, are recognized in current income as gains or losses as the exchange rates change.

A summary of such contracts follows:

(in millions) **Contracting party**	**USD Put Buying**	**USD Call Selling**	**Strike Price**	**Maturity date**
KDB and others	US$ 70	US$ 70	(Won) 922.0:US$1- (Won) 933.2:US$1	Aug. 28, 2007 - Oct. 11, 2007

(in millions) **Contracting party**	**JPY Call Buying**	**JPY Put Selling**	**Strike Price**	**Maturity date**
Citibank and others	JP¥ 23,000	JP¥ 23,000	(Won) 7.4457: JP¥1- (Won) 8.1000: JP¥1	Aug. 14, 2007 - Dec. 12, 2007

As of June 30, 2007, unrealized gains of (Won)392 million (2006: nil) and unrealized losses of (Won)833 million (2006: (Won)291 million), were charged to current income, as these contracts do not fulfill the requirements for hedge accounting for financial statement purposes.

For the six-month period ended June 30, 2007, the Company recorded realized gains of (Won)54 million (2006: nil) upon settlement of target forward option contracts.

As of June 30, 2007, in relation to its TFT-LCD business, the Company has technical license agreements with Hitachi and others, and has trademark license agreements with LG Corporation and Koninklijke Philips Electronics N.V.

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(Unaudited)

The Company is involved in several legal proceedings and claims arising in the ordinary course of business. On August 29, 2002, the Company filed a complaint against Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America, alleging patent infringement relating to liquid crystal displays and the manufacturing process of TFT-LCDs. On June 21, 2004, Chunghwa Picture Tubes filed a counter-claim against the Company in the United States District Court for the Central District of California for alleged ownership for certain patents and violation of U.S. antitrust laws. In October 2006, the court of the Central District of California dismissed the counter-claim for alleged ownership for certain patents. On November 21, 2006, the Jury in California issued a verdict that Chunghwa Picture Tubes, Tatung Company and Tatung Co. of America had willfully infringed a patent owned by the Company, and awarded the Company US$53.5 million in damages.

On May 27, 2004, the Company filed a complaint in the United States District of Delaware against Tatung Co., the parent company of Chunghwa Picture Tubes, and ViewSonic Corp., and others claiming patent infringement of rear mountable liquid crystal display devices.

On January 10, 2005, Chunghwa Picture Tubes filed a complaint for patent infringement against LG Electronics Inc. and the Company in the United States District Court for the Central District of California. On March 29, 2007, the United States District Court for the Central District of California dismissed the case without prejudice.

On May 13, 2005, the Company also filed a complaint against Chunghwa Picture Tubes, Tatung Company and Viewsonic Corporation, alleging patent infringement related to liquid crystal display and the manufacturing process of TFT-LCDs in the United States District of Delaware. On July 27, 2006, the Jury in Delaware issued a verdict that Chunghwa Picture Tubes had willfully infringed a patent owned by the Company, and awarded the Company US$52.4 million in damages.

On January 9, 2006, New Medium Technology LLC, AV Technologies LLC, IP Innovation LLC, and Technology Licensing Corporation filed a complaint for patent infringement against the Company in the United States District Court of Illinois Eastern Division. On June 28, 2007, the Company settled with IP Innovation LLC and Technology Licensing Corporation, and the case was dismissed on July 6, 2007.

On December 1, 2006, the Company filed a complaint against Chi Mei Optoelectronics Corp., AU Optronics Corp., Tatung Company, ViewSonic Corp. and others alleging patent infringement related to liquid crystal display and manufacturing process for TFT-LCDs in the United States District Court for the District of Delaware. On March 8, 2007, AU Optronics Corp. countersued against the Company in the United States District Court for the Western District of Wisconsin, but the suit was transferred to the United States District Court for the District of Delaware according to the Company s motion to transfer. On May 4, 2007, Chi Mei Optoelectronics Co. countersued the Company for patent infringement in the United States District Court for the Eastern District of Texas.

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(Unaudited)

On April 14, 2006, Positive Technologies, Inc. filed a complaint in the United States District Court for the Eastern District of Texas against, among others, several of our customers, including BenQ America Corp., Hitachi America Ltd., Panasonic Corp. of North America, Philips Electronics North America Corp. Toshiba America, Inc., for alleged infringement of two of its patents relating to LCD displays. Positive Technologies, Inc. is seeking, among other things, damages for past infringement. On March 7, 2007, the United States District Court for the Eastern District of Texas granted the Company s intervention in the patent infringement case brought by Positive Technologies, Inc.

On February 2, 2007, Anvik Corporation filed a patent infringement case against the Company, along with other LCD manufacturing companies, in connection with the usage of photo-masking equipment manufactured by Nikon Corporation.

The Company s management does not expect that the outcome in any of these legal proceedings and claims, individually or collectively, will have material adverse effect on the Company s financial condition, results of operations or cash flows.

The Company is currently under investigation by the fair trade or antitrust authorities in Korea, Japan, US and other markets with respect to possible anti-competitive activities in the LCD industry. As of June 30, 2007, the Company, along with a number of other companies in the LCD industry, has been named as defendant in a number of federal class actions in the United States alleging that the defendants violated the antitrust laws in connection with the sale of LCD panels.

In February 2007, the Company and certain of its officers and directors have been named as defendants in a federal class action in the United States by the shareholders of the Company alleging violations of the U.S. Securities Exchange Act of 1934, as amended, by the Company and certain of its officers and directors in connection with possible anti-competitive activities in the LCD industry. The Company and the officers and directors intend to defend themselves vigorously in this matter.

Each of these matters remains in the very early stages and the Company is not in a position to predict their ultimate outcome. However, the Company intends to defend itself vigorously in these matters.

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(Unaudited)

10. Deferred Income Tax Assets and Liabilities

Deferred income tax assets (liabilities) as of June 30, 2007 and December 31, 2006, consist of the following:

(in millions of Korean won)	**2007**	**2006**
Inventories	(Won) 8,057	(Won) 21,098
Equity method investments	(18,377)	(11,578)
Other current assets	684	492
Property, plant and equipment	42,742	40,875
Tax credit carryforwards	475,395	436,486
Deferred income taxes added to shareholders equity	(10,548)	(10,892)
Net loss carryforwards	269,643	248,493
Others	24,453	27,616
	792,049	752,590
Less: Valuation allowance	(18,547)	(159,527)
	(Won) 773,502	(Won) 593,063

As the Company anticipates that all tax benefits from tax credits would not be fully realized, a valuation allowance amounting to (Won)18,547 million has been provided as of June 30, 2007.

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LG. Philips LCD Co., Ltd.

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(Unaudited)

11. Comprehensive Income and Loss

Comprehensive income and loss for the six-month periods ended June 30, 2007 and 2006, are as follows:

(in millions of Korean won)	2007	2006
Net income	(Won) 59,888	(Won) (274,002)
Other comprehensive income:		
Gain (loss) on overseas subsidiary translation adjustments (tax effect: (Won)1,526 million in 2007)	9,181	(16,179)
Gain on valuation of derivatives (tax effect: (Won)4,587 million in 2007)	(12,094)	37,750
Loss on valuation of derivatives (tax effect: (Won) (1,278) million in 2007)	3,370	4,593
Comprehensive income (loss)	(Won) 60,345	(Won) (247,838)

12. Cost of Sales

Cost of sales for the six-month periods ended June 30, 2007 and 2006, are as follows:

(in millions of Korean won)	2007	2006
Finished goods		
Beginning balance of inventories	(Won) 256,002	(Won) 173,404
Cost of goods manufactured	5,814,469	3,904,652
Ending balance of inventories	(367,276)	(387,188)
	5,703,195	3,690,868
Others	10,360	975,762
	(Won) 5,713,555	(Won) 4,666,630

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(Unaudited)

13. Selling and Administrative Expenses

Selling and administrative expenses for the six-month periods ended June 30, 2007 and 2006, consist of the following:

(in millions of Korean won)	**2007**	**2006**
Salaries	(Won) 33,602	(Won) 21,250
Severance benefits	5,083	3,174
Employee benefits	3,849	2,741
Freight expenses	70,818	92,922
Rental expenses	1,851	1,337
Commission expenses	26,591	37,514
Entertainment expenses	739	627
Depreciation	2,295	1,050
Taxes and dues	883	749
Advertising expenses	12,814	11,353
Promotional expenses	9,135	15,060
Development costs	1,439	114
Research expenses	49,588	35,702
Bad debt expenses	47	(124)
Product warranty expenses	28,945	12,573
Others	10,965	11,286
	(Won) 258,644	(Won) 247,328

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(Unaudited)

14. Earnings(Loss) Per Share

Earnings (loss) per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Ordinary income (loss) per share is computed by dividing ordinary income (loss) allocated to common stock, which is net income (loss) allocated to common stock as adjusted by extraordinary gains or losses, net of related income taxes, by the weighted-average number of common shares outstanding during the period.

Earnings (loss) per share for the three-month and six-month periods ended June 30, 2007 and 2006, is calculated as follows:

	For the three-month periods ended June 30,		For the six-month periods ended June 30,	
(in millions, except for per share amount)	**2007**	**2006**	**2007**	**2006**
Net income (loss) as reported on the statements of income	(Won) 228,486	(Won) (321,520)	(Won) 59,888	(Won) (274,002)
Weighted-average number of common shares outstanding	358	358	358	358
Earnings (loss) per share	(Won) 639	(Won) (899)	(Won) 167	(Won) (766)

Prior to the issuance of convertible bonds on April 19, 2005, the Company had not issued any dilutive securities. Diluted loss per share is identical to basic loss per share as the Company recorded net loss during the three-month period and six-month periods ended June 30, 2006. Additionally, diluted earnings per share is identical to basic earnings per share as convertible bonds have no dilutive effect for the six-month period ended June 30, 2007.

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(Unaudited)

Dilutive effect for the three-month period ended June 30, 2007, is as follows:

(in millions, except for per share amount)	**For the three-month period ended June 30, 2007**	
Net income allocated to common stock	(Won)	228,486
Add: Interest expense on convertible bonds[1]		7,901
Diluted net income allocated to common stock		236,387
Weighted average number of common shares and diluted securities outstanding during the period		375
Diluted earnings per share	(Won)	631

[1] Net of (Won)(2,997) million tax effect.

Additionally, loss per share for the three-month period ended March 31, 2007 and for the year ended December 31, 2006, are as follows:

	December 31, 2006		**March 31, 2007**	
Basic loss per share	(Won)	2,150	(Won)	471
Diluted loss per share	(Won)	2,150	(Won)	471

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LG. Philips LCD Co., Ltd.

Notes to Non-Consolidated Financial Statements

June 30, 2007 and 2006, and December 31, 2006

(Unaudited)

15. Related Party Transactions

The ultimate parent company is LG Corporation and the parent company of the Company is LG Electronics Inc., which is responsible for the consolidated financial statements.

Significant transactions which occurred in the normal course of business with related companies for the six-month periods ended June 30, 2007 and 2006, and the related account balances outstanding as of June 30, 2007 and December 31, 2006, are summarized as follows:

	Sales [1]		Purchases [1]	
(in millions of Korean won)	**2007**	**2006**	**2007**	**2006**
Parent companies	(Won) 427,742	(Won) 427,247	(Won) 54,854	(Won) 126,431
Company that has significant influence over the Company			7,482	5,853
Overseas subsidiaries	4,857,886	3,766,312	170,712	39,505
Equity-method investee		6	115,563	54,864
Other related parties	77,446	62,156	883,480	1,228,572
Total	(Won) 5,363,074	(Won) 4,255,721	(Won) 1,232,091	(Won) 1,455,225

1 Includes sales of (Won)18,787 million and purchases of property, plant and equipment of (Won)151,154 million.

	Receivables		Payables	
(in millions of Korean won)	**2007**	**2006**	**2007**	**2006**
Parent companies [2]	(Won) 138,465	(Won) 70,805	(Won) 29,924	(Won) 19,328
Company that has significant influence over the Company [3]	2,447	2,340	765	548
Overseas subsidiaries [4]	1,234,791	963,098	35,318	27,449
Equity-method investee [5]			24,638	22,535
Other related parties [6]	8,602	22,897	320,195	424,572
Total	(Won) 1,384,305	(Won) 1,059,140	(Won) 410,840	(Won) 494,432

2 LG Electronics Inc., Koninklijke Philips Electronics N.V.

3 LG Corp.

4 LG Philips LCD America, Inc., LG Philips LCD Taiwan Co., Ltd.,
LG Philips LCD Japan Co., Ltd., LG Philips LCD Germany GmbH.,

LG Philips LCD Nanjing Co., Ltd., LG Philips LCD Shanghai Co., Ltd., LG Philips LCD Hong Kong Co., Ltd., LG.Philips LCD Poland Sp. z o.ogn="left" style="margin-left: 0%; margin-right: 0%; text-indent: 4%; font-size: 10pt; font-family: 'Times New Roman', Times; color: #000000; background: #FFFFFF"> Certain amounts in prior years consolidated financial statements have been reclassified to conform to the current year s presentation including the reclassification of the effect of exchange rate changes on cash of $234,000 to a separate line on the Consolidated Statements of Cash Flows from cash used in investing activities for the year ended December 31, 2007.

Cash and Cash Equivalents

Cash equivalents are comprised of liquid instruments with original maturity dates of 90 days or less.

Fair Value of Financial Instruments

We consider the recorded value of our financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, bank borrowings, and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 2009 and 2008 based upon the short-term nature of the assets and liabilities. As noted below, we maintain interest rate derivatives which are recorded at fair value.

Accounts Receivable Realization

We maintain allowances for doubtful accounts for estimated losses resulting from our review and assessment of our clients ability to make required payments, and the estimated realization, in cash, by us of amounts due from our clients. If our clients financial condition were to deteriorate, resulting in an impairment of their ability to make payment, additional allowances might be required.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of three to seven years for furniture, fixtures and equipment, and three to seven years for software. Amortization of leasehold improvements is computed over the shorter of the remaining lease term or the estimated useful life of the asset which is up to twelve years.

Operating Leases

We lease office space under operating leases. Some of the lease agreements contain one or more of the following provisions or clauses: tenant allowances, rent holidays, lease premiums, and rent escalation clauses. For the purpose of recognizing these provisions on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we enter the space and begin to make improvements in preparation of intended use.

For tenant allowances and rent holidays, we record a deferred rent liability and amortize the deferred rent over the terms of the leases as reductions to rent expense. For scheduled rent escalation clauses during the lease term or for rental payments commencing at a date other than the date of initial occupancy, we record minimum rental expenses on a straight-line basis over the terms of the leases.

Goodwill and Intangible Assets

Goodwill represents the difference between the purchase price of acquired companies and the related fair value of the net assets acquired, which is accounted for by the purchase method of accounting. Intangible assets consist of identifiable intangibles other than goodwill. Identifiable intangible assets other than goodwill include customer lists and relationships, employee non-compete agreements, employee training methodology and materials, backlog revenue and trade names. Intangible assets, other than goodwill, are amortized based on the period of consumption, ranging up to nine years. Our long term assets are subject to changes in events or circumstances that could impact their carrying value.

We test goodwill annually for impairment. We also review long-lived assets, including identifiable intangible assets and goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Our impairment testing and reviews may be impacted by, among other things, our expected operating performance, market valuation of comparable companies, ability to retain key personnel, changes in operating segments and competitive environment. A decline in the estimated fair value of our reporting units or other long term assets could result in impairment charges. We did not recognize any impairment charges for goodwill, indefinite-lived intangible assets or identifiable intangible assets subject to amortization during the periods presented.

We do not amortize goodwill. Goodwill is subject to an impairment test annually and more frequently if events and circumstances indicate that goodwill may be impaired. The impairment test is performed using a two step, fair-value based test. The first step compares the fair value of a reporting unit to its carrying value. The fair value is determined using a discounted cash flow analysis and a comparable company analysis. The second step is performed only if the carrying value exceeds the fair value determined in step one. The impairment test is considered for each reporting unit as defined in the accounting standard for goodwill and other intangible assets which are the same as our reporting segments.

Our test for goodwill impairment is based on the estimated fair value of our reporting units. The estimated fair value of our reporting units is subject to, among other things, changes in our estimated business future growth rate, profit margin, long term outlook and weighted average cost of capital. Our International Consulting Operations and Economic Consulting Services reporting units are most sensitive to those changes as the excess of their fair values over their asset carrying values is generally lower. Considerable management judgment is required to estimate future cash flows. Assumptions used in our impairment evaluations, such as

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

forecasted growth rates and cost of capital, are consistent with internal projections and operating plans. The achievement of such internal projections and operating plans will be impacted by the overall economic environment, among other factors.

We perform our annual test in the second quarter of each year. We determined the fair value of each reporting unit which required us to estimate future cash flows and termination value. The fair value estimate also depended on, among other things, our weighted average cost of capital and working capital requirements. Estimates can also be impacted by, among other things, expected performance, market valuation of comparable companies, ability to retain key personnel, changes in operating segments and competitive environment. There was no indication of impairment based on our analysis.

During our annual test of goodwill, we considered that each of the four reporting units has significant goodwill and intangible assets and that the excess of estimated fair value over the net asset carrying value for all reporting units decreased relative to the prior year test. As of the date of our May 31, 2009 analysis, the excess of estimated fair value over net asset carrying value of the North American Business Consulting Services reporting unit and the North American Dispute and Investigative Services reporting unit was approximately 40% and 25% of the estimated fair value, respectively. The excess of estimated fair value over the net asset carrying value of the International Consulting Operations and Economic Consulting Services reporting units were both approximately 20% of the estimated fair value and given the smaller size of these reporting units the relative dollars of the excess are substantially smaller than for the other two reporting units. Further, the estimated fair value of the International Consulting Operations and Economic Consulting Services reporting units may be more volatile due to the reporting units smaller size and higher expected earnings growth rates. Also, given the International Consulting Operations reporting unit s international market, its fair market value may be more volatile. Additionally, the Economic Consulting Services reporting unit was recently acquired as one acquisition and its fair market value is dependent on the success of such acquisition. The key assumptions used in our May 31, 2009 analysis include profit margin improvement to be generally consistent with our past historical performance, revenue growth rates slightly ahead of the industry in the near term and discount rates determined based on market comparables for our peer group. Our fair market value estimates were made as of the date of our analysis and are subject to change.

We are required to consider whether or not the fair value of each of the reporting units could have fallen below its carrying value. We consider elements and other factors including, but not limited to, changes in the business climate in which we operate, attrition of key personnel, unanticipated competition, our market capitalization in excess of our book value, our recent operating performance, and our financial projections. As a result of this review, we are required to determine whether such an event or condition existed that would require us to perform an interim goodwill impairment test prior to our next annual test date. We continue to monitor these factors and we may perform additional impairment tests as appropriate in future periods. As of December 31, 2009, we believe there was no indication of impairment related to our goodwill balances.

We review our intangible asset values on a periodic basis. We review long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or upon the occurrence of any triggering event. Our intangible assets are subject to changes in estimated fair market values which are determined in part based on our operating performance and expectations for the future. As of December 31, 2009, there was no indication of impairment related to our intangible assets.

On an ongoing basis, we evaluate our strategic position in several markets. As we review our portfolio of services, we may exit certain markets or reposition certain service offerings within our business. This evaluation may result in us redefining our operating segments and may impact a significant portion of one or more of our reporting units. If such actions occur, they may be considered triggering events that would result in us performing an interim impairment test of our goodwill and an impairment test of our intangible assets.

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Revenue Recognition

We recognize revenues as the related professional services are provided. In connection with recording revenues, estimates and assumptions are required in determining the expected conversion of the revenues to cash. We may provide multiple services under the terms of an arrangement and are required to assess whether one or more units of accounting are present. Usually we account for the fees as one unit of accounting as we do not have fair value evidence for individual tasks or milestones. There are also client engagements where we are paid a fixed amount for our services. The recording of these fixed revenue amounts requires us to make an estimate of the total amount of work to be performed and revenues are then recognized as efforts are expended based on (i) objectively determinable output measures, (ii) input measures if output measures are not reliable, or (iii) the straight-line method over the term of the arrangement. From time to time, we also earn incremental revenues. These incremental revenue amounts are generally contingent on a specific event, and the incremental revenues are recognized when the contingencies are resolved. Any taxes assessed on revenues relating to services provided to our clients are recorded on a net basis.

Legal

We record legal expenses as incurred. Potential exposures related to unfavorable outcomes of legal matters are accrued for when they become probable and reasonably estimable.

Share-Based Payments

The cost resulting from all share-based compensation arrangements, such as our stock option and restricted stock plans, are recognized in the financial statements based on their grant date fair value.

Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity

In connection with certain acquisitions, we are contractually obligated to issue a fixed dollar amount of shares of our common stock. The number of shares to be issued is based on the trading price of our common stock at the time of issuance. We recorded such obligations as current and non-current liabilities based on the due dates of the obligations.

Income Taxes

Income taxes are accounted for in accordance with the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We record interest and penalties as a component of our income tax provision. Such amounts were not material during 2009, 2008 or 2007.

Treasury Stock

Treasury stock transactions are recorded at cost.

Foreign Currency Translation

The balance sheets of our foreign subsidiaries are translated into United States dollars using the period-end exchange rates, and revenues and expenses are translated using the average exchange rates for each period. The resulting translation gains or losses are recorded in stockholders equity as a component of accumulated

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other comprehensive income. Gains and losses resulting from foreign exchange transactions are recorded in the consolidated statements of income. Such amounts were not significant during 2009, 2008 or 2007.

Interest Rate Derivatives

We maintain interest rate swaps that are designated as cash flow hedges to manage the market risk from changes in interest rates on a portion of our variable rate term loans. We recognize derivative instruments which are cash flow hedges as assets or liabilities at fair value, with the related gain or loss reflected within stockholders equity as a component of accumulated other comprehensive income. Such instruments are recorded at fair value, and at December 31, 2009, the net fair value approximated a liability of $3.9 million which was included in other current liabilities. Changes in fair value, as calculated are recorded in other comprehensive income (see Note 11 Comprehensive Income) only to the extent of effectiveness. Any ineffectiveness on the instruments would be recognized in the consolidated statements of income. The differentials to be received or paid under the instruments are recognized in income over the life of the contract as adjustments to interest expense. During 2009, we recorded no gain or loss due to ineffectiveness and recorded $7.4 million in interest expense associated with differentials paid under the instrument. Based on the net fair value of our interest rate swaps at December 31, 2009, we expect to record expense of approximately $4.0 million related to these instruments in 2010.

Accounting for Acquisitions

In December 2007, guidance was issued which changes certain aspects for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase. The guidance also sets forth the disclosures required to be made in the financial statements to evaluate the nature and financial effects of the business combination. This guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. As such, our adoption on January 1, 2009 will impact all our acquisitions on or after that date.

Comprehensive Income

Comprehensive income consists of net income, foreign currency translation adjustments and unrealized net loss on the interest rate derivatives. It is presented in the consolidated statements of stockholders equity.

3. ACQUISITIONS

2009 Acquisitions

On February 23, 2009, we acquired assets of Morse PLC s Investment Management Consulting Business from Morse PLC located in the United Kingdom for $1.9 million in cash paid at closing. As part of the purchase price allocation, we recorded $0.4 million in identifiable intangible assets and $1.6 million in goodwill, which included a deferred tax adjustment of $0.1 million. This acquisition consisted of 26 consulting professionals and has been included in the International Consulting Operations segment.

On December 31, 2009, we acquired the assets of Summit Blue Consulting, LLC for $13.0 million, which consisted of $11.0 million in cash paid at closing and two deferred cash payments of $1.0 million each, due on the first and second anniversaries of the closing. As part of the purchase price allocation, we recorded $2.6 million in identifiable intangible assets and $10.4 million in goodwill. The purchase price paid in cash at closing was funded with cash from operations.

We acquired Summit Blue to expand and complement our energy practice with new service lines to our clients. Summit Blue specializes in resource planning, energy efficiency, demand response, and renewable

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

energy consulting services for utilities, public agencies, and other clients. Summit Blue, headquartered in Boulder, Colorado, had approximately 60 consultants at the time of acquisition and is included in our North American Business Consulting Services segment.

2008 Acquisitions

On May 1, 2008, we acquired the assets of Chicago Partners, LLC for $73.0 million, which consisted of $50.0 million in cash paid at closing and $23.0 million in our common stock (which was recorded at fair value for $21.0 million at closing). The common stock will be paid in four equal installments of $5.8 million, the first and second of which have been paid and the remaining two of which will be paid on each of the second and third year anniversaries of the closing. We acquired assets of $16.7 million, including $15.8 million in accounts receivable and assumed liabilities of $7.0 million. We paid $0.5 million in acquisition-related costs. We recorded $2.8 million of liabilities for obligations related to lease exit costs for office space assumed in the acquisition. The obligation recorded for real estate lease exit costs was based on foregone rent payments for the remainder of the lease term less assumed sublease income. As of December 31, 2009, we have secured a subtenant for a portion of the total office space assumed in the acquisition. As part of the original purchase price allocation, we recorded $4.3 million in identifiable intangible assets and $61.6 million in goodwill. The purchase price paid in cash at closing was funded under our credit facility.

Subsequent to the closing date, we may pay up to $27.0 million of additional purchase consideration based on the Chicago Partners business achieving certain post-closing performance targets during the periods from closing to December 31, 2008 and in calendar years 2009, 2010 and 2011. If earned, the additional purchase consideration would be payable 75% in cash and 25% in our common stock. The additional purchase price payments, if any, will be payable in March of the year following the year in which such performance targets are attained. Any additional purchase price consideration payments will be recorded as goodwill when the contingencies regarding attainment of performance targets are resolved. As of December 31, 2008, we recorded a liability for additional purchase price payments of approximately $3.0 million associated with additional purchase consideration earned during 2008. During the three months ended March 31, 2009, we made an additional purchase price payment of $2.3 million based on 2008 performance and accordingly adjusted the $3.0 million accrual for earnout payments recorded at December 31, 2008 to $2.3 million at March 31, 2009, which also impacted goodwill. For 2009, Chicago Partners did not attain the required performance targets and therefore did not earn any additional purchase price consideration. As a result, as of December 31, 2009, there were no adjustments to goodwill and purchase price obligations related to 2009 earnout considerations.

We acquired Chicago Partners to expand our product offerings to our clients. Chicago Partners provides economic and financial analyses of legal and business issues principally for law firms, corporations and government agencies. Chicago Partners had approximately 90 consultants at the time of acquisition. Chicago Partners is managed and resources are allocated based on its results and as such, operates under a fourth operating segment referred to as Economic Consulting Services.

On December 31, 2008, we acquired the assets of The Bard Group, LLC for $7.2 million, which consisted of $4.6 million in cash and $0.6 million of our common stock paid at closing and two deferred cash payments of $1.0 million each, due on the first and second anniversaries of closing. On December 31, 2009 we paid the first cash payment of $1.0 million. The common stock and deferred cash payments were recorded at fair value at closing for $0.5 million and $1.9 million, respectively. We acquired assets of $0.7 million and assumed liabilities of $0.7 million.

As part of the purchase price allocation, we recorded $1.6 million in identifiable intangible assets and $5.4 million in goodwill. Bard provided physician leadership and performance improvement services in the healthcare industry. We acquired Bard to enhance our healthcare practice in the area of providing integration strategy, service line development, and performance excellence. Bard was

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

comprised of 25 consulting professionals located in Boston, Massachusetts at the time of acquisition and was included in North American Business Consulting Services segment.

2007 Acquisitions

On January 5, 2007, we acquired Abros Enterprise Limited for $11.9 million, which consisted of $9.9 million in cash, $1.0 million of our common stock paid at closing, and notes payable totaling $1.0 million (payable in two equal installments on the first and second anniversaries of the closing date). We acquired assets of $3.3 million, including $1.8 million in cash, and assumed liabilities of $1.4 million. As part of the purchase price allocation, we recorded $4.0 million in identifiable intangible assets and $8.1 million in goodwill, which included $1.2 million of deferred income taxes. Additionally, we paid $0.4 million of acquisition-related costs. As part of the purchase agreement, we acquired an office lease agreement which we terminated. We recorded $0.2 million to goodwill and accrued liabilities for the additional acquisition-related costs to exit the lease of the acquired business. In addition, we paid $0.4 million related to adjustments to the net asset value acquired from Abros. Abros offered strategic planning, financial analysis and implementation advice for public sector infrastructure projects. We acquired Abros to strengthen our presence in the United Kingdom public sector markets. Abros was comprised of 15 consulting professionals located in the United Kingdom at the time of acquisition and was included in the International Consulting Operations segment.

On June 8, 2007, we acquired Bluepress Limited, a holding company which conducted business through its wholly-owned subsidiary, Augmentis PLC, for $16.2 million, which consisted of $15.3 million in cash paid at closing and $0.8 million of our common stock paid in July 2007. We acquired assets of $3.1 million and assumed liabilities of $7.0 million. In June 2007, as part of the purchase agreement, we received $4.0 million in cash as an adjustment to the purchase price consideration related to the assumption of debt at the closing date, which was paid off shortly thereafter. As part of the purchase price allocation, we recorded $6.8 million in identifiable intangible assets and $11.8 million in goodwill, which included $2.0 million of deferred income taxes. Additionally, we paid $0.4 million in acquisition-related costs. Augmentis provided program management consulting services to support public sector infrastructure projects. We acquired Augmentis to strengthen our presence in the United Kingdom public sector markets. Augmentis was comprised of 24 consulting professionals located in the United Kingdom at the time of acquisition and was included in the International Consulting Operations segment.

On June 19, 2007, we acquired the assets of AMDC Corporation for $16.6 million, which consisted of $13.0 million in cash and $1.6 million of our common stock paid at closing, and $2.0 million paid in cash on the first anniversary of the closing date. As part of the purchase price allocation, we recorded $4.9 million in identifiable intangible assets and $12.2 million in goodwill. We assumed certain liabilities aggregating $1.1 million including deferred revenue and acquisition costs related to exiting an office lease acquired as part of the acquisition. AMDC provided strategy and implementation consulting services in relation to the development of hospital and healthcare facilities. We acquired AMDC to strengthen our healthcare business and leverage our construction consulting capabilities. AMDC was included in the North American Business Consulting Services segment and included 23 consulting professionals at the time of acquisition.

On July 30, 2007, we acquired Troika (UK) Limited for $43.9 million, which consisted of $30.8 million in cash paid at closing, $3.3 million of our common stock paid in September 2007, and notes payable totaling $9.8 million (payable in two equal installments on the first and second anniversaries of the closing date). We acquired assets of $10.3 million, including $3.4 million in cash, and assumed liabilities of $5.9 million. As part of the purchase price allocation, we recorded $14.2 million in identifiable intangible assets and $30.7 million in goodwill, which included $4.0 million of deferred income taxes. We paid $1.0 million related to adjustments to the net asset value acquired from Troika. Additionally, we paid $0.4 million of acquisition-related costs. Troika provided consultancy services to the financial services and insurance industry covering

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operations performance improvement; product and distribution strategies; organization, people and change; and IT effectiveness and transaction support. Troika was included in the International Consulting Operations segment and included 42 consulting professionals located in the United Kingdom at the time of acquisition.

We acquired other businesses during the year ended December 31, 2007 for an aggregate purchase price of approximately $8.1 million. As part of the purchase price allocations for these acquisitions, we recorded $3.9 million in identifiable intangible assets and $4.9 million in goodwill, which included $1.5 million of deferred income taxes. These acquisitions included 25 consulting professionals, most of whom were located in Canada.

Accounting for Acquisitions

All of our business acquisitions described above have been accounted for by the purchase method of accounting for business combinations and, accordingly, the results of operations have been included in our consolidated financial statements since the dates of the acquisition. As discussed in Note 2 Summary of Significant Accounting Policies we changed our method of accounting for business combinations as of January 1, 2009.

Pro Forma Information

The following table summarizes certain supplemental unaudited pro forma financial information which was prepared as if the 2008 and 2009 acquisitions noted above had occurred as of the beginning of the periods presented. The unaudited pro forma financial information was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future.

	For the Year Ended December 31,	
	2009	**2008**
Total revenues	$ 722,250	$ 858,532
Net income	$ 22,443	$ 44,523
Basic net income per share	$ 0.47	$ 0.93
Diluted net income per share	$ 0.45	$ 0.90

4. SEGMENT INFORMATION

We manage our business in four segments North American Dispute and Investigative Services, North American Business Consulting Services, International Consulting Operations, and Economic Consulting Services. The Economic Consulting Services segment was added in 2008 in connection with our acquisition of the Chicago Partners business on May 1, 2008 (see Note 3 Acquisitions). These segments are generally defined by the nature of their services and by geography. The business is managed and resources are allocated on the basis of the four operating segments.

The North American Dispute and Investigative Services segment provides a wide range of services to clients facing the challenges of disputes, litigation, forensic investigation, discovery, and regulatory compliance. The clients of this segment are principally law firms, corporate general counsel, and corporate boards.

The North American Business Consulting Services segment provides strategic, operational, financial, regulatory and technical management consulting services to clients. Services are sold principally through vertical industry practices such as energy, healthcare, financial and insurance. The clients are principally C suite and corporate management, government entities, and law firms.

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The International Consulting Operations segment provides a mix of dispute and business consulting services to clients predominately outside North America.

The Economic Consulting Services segment provides economic and financial analyses of complex legal and business issues principally for law firms, corporations and government agencies. Expertise includes areas such as antitrust, corporate finance and governance, bankruptcy, intellectual property, investment banking, labor market discrimination and compensation, corporate valuation, and securities litigation.

We have identified the above four operating segments as reportable segments.

Information on the segment operations have been summarized as follows (shown in thousands):

	For the Year Ended December 31,		
	2009	2008	2007
Revenue before reimbursements:			
North American Dispute and Investigative Services	$ 261,892	$ 306,850	$ 298,699
North American Business Consulting Services	263,263	314,677	327,511
International Consulting Operations	60,107	69,793	55,028
Economic Consulting Services	51,486	35,742	
Total revenue before reimbursements	$ 636,748	$ 727,062	$ 681,238
Total revenues:			
North American Dispute and Investigative Services	$ 287,387	$ 338,230	$ 324,734
North American Business Consulting Services	291,607	355,991	379,152
International Consulting Operations	72,820	79,526	63,172
Economic Consulting Services	55,425	36,893	
Total revenues	$ 707,239	$ 810,640	$ 767,058
Segment operating profit:			
North American Dispute and Investigative Services	$ 103,645	$ 131,440	$ 126,529
North American Business Consulting Services	94,950	127,065	123,764
International Consulting Operations	14,463	23,251	22,160
Economic Consulting Services	18,173	14,121	
Total combined segment operating profit	231,231	295,877	272,453
Segment reconciliation to income before income tax expense:			
Unallocated:			
General and administrative expenses	129,048	155,378	141,430
Depreciation expense	17,600	17,302	16,179

Amortization expense	13,014	16,386	17,494
Long term compensation expense related to consulting personnel (including share based compensation)	11,028	12,850	12,247
Other operating expenses	8,810	5,207	11,837
Operating Income	51,731	88,754	73,266
Other expense, net	13,683	18,902	14,728
Total unallocated expenses, net	193,183	226,025	213,915
Income before income tax expense	$ 38,048	$ 69,852	$ 58,538

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long term compensation expense related to consulting personnel includes share based compensation expense and compensation expense attributed to forgivable loans (see Note 9 Supplemental Consolidated Balance Sheet Information).

We recorded other operating costs of $8.8 million, $5.2 million and $11.8 million for the years ended December 31, 2009, 2008 and 2007, respectively, which were not allocated to segment operating costs (see Note 13 Other Operating Costs for a description of such costs).

The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses. Certain unallocated expense amounts, related to specific reporting segments, have been excluded from the segment operating profit to be consistent with the information used by management to evaluate segment performance. We record accounts receivable, and goodwill and intangible assets, net on a segment basis. Other balance sheet amounts are not maintained on a segment basis.

Total assets by segment were as follows (shown in thousands):

	December 31, 2009	December 31, 2008
North American Dispute and Investigative Services	$ 294,439	$ 287,225
North American Business Consulting Services	232,892	236,419
International Consulting Operations	73,197	73,897
Economic Consulting Services	78,533	74,089
Unallocated assets	141,184	120,763
Total assets	$ 820,245	$ 792,393

Geographic data

Total revenue and assets by geographic region were as follows (shown in thousands):

	For the Year Ended December 31, 2009	2008	2007
Total revenue:			
United States	$ 592,663	$ 676,610	$ 658,325
United Kingdom	80,021	93,567	79,831
All other	34,555	40,463	28,902
Total	$ 707,239	$ 810,640	$ 767,058

	December 31, 2009	December 31, 2008
Total assets:		
United States	$ 658,398	$ 639,048
United Kingdom	119,996	110,966
All other	41,851	42,379
Total	$ 820,245	$ 792,393

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. GOODWILL AND INTANGIBLE ASSETS, NET

As of December 31, goodwill and other intangible assets consisted of (shown in thousands):

	2009	2008
Goodwill	$ 490,526	$ 468,483
Less accumulated amortization	(5,425)	(5,425)
Goodwill, net	485,101	463,058
Intangible assets:		
Customer lists and relationships	63,697	58,834
Non-compete agreements	19,701	18,878
Other	19,589	17,470
Intangible assets, at cost	102,987	95,182
Less: accumulated amortization	(72,635)	(57,074)
Intangible assets, net	30,352	38,108
Goodwill and intangible assets, net	$ 515,453	$ 501,166

We are required to perform an annual goodwill impairment test and more frequently if events or circumstances indicate that goodwill may be impaired. Our annual test is completed in the second quarter of each year. During the second quarter of 2009, we completed an annual impairment test of our goodwill balances as of May 31, 2009. There was no indication of impairment based on our analysis.

During our annual test of goodwill, we considered that each of the four reporting units has significant goodwill and intangible assets and that the excess of estimated fair value over the net asset carrying value for all reporting units decreased relative to the prior year test. As of the date of our May 31, 2009 analysis, the excess of estimated fair value over net asset carrying value of the North American Business Consulting Services reporting unit and the North American Dispute and Investigative Services reporting unit was approximately 40% and 25% of the estimated fair value, respectively. The excess of estimated fair value over the net asset carrying value of the International Consulting Operations and Economic Consulting Services reporting units were both approximately 20% of the estimated fair value and given the smaller size of these reporting units the relative dollars of the excess are substantially smaller than for the other two reporting units. Further, the estimated fair value of the International Consulting Operations and Economic Consulting Services reporting units may be more volatile due to the reporting units smaller size and higher expected earnings growth rates. Also, given the International Consulting Operations reporting unit s international market, its fair market value may be more volatile. Additionally, the Economic Consulting Services reporting unit was recently acquired as one acquisition and its fair market value is dependent on the success of such acquisition. The key assumptions used in our May 31, 2009 analysis include profit margin improvement to be generally consistent with our historical performance, revenue growth rates slightly ahead of the industry in the near term and discount rates determined based on market comparables for our peer group. Our fair market value estimates were made as of the date of our analysis and are subject to change.

We are required to consider whether or not the fair value of each of the reporting units could have fallen below its carrying value. We consider elements and other factors including, but not limited to, changes in the business climate in which we operate, attrition of key personnel, unanticipated competition, our market capitalization in excess of our book value, our recent operating performance, and our financial projections. As a result of this review we are required to determine whether such an event or condition existed that would require us to perform an interim goodwill impairment test prior to our next annual test date. We continue to monitor these factors and we may perform additional impairment tests as appropriate in future periods.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We review our intangible asset values on a periodic basis. We had $30.4 million in intangible assets, net of accumulated amortization as of December 31, 2009. Of the $30.4 million balance, $22.6 million related to customer lists and relationships, $3.4 million related to non-compete agreements and $4.4 million related to other intangible assets. As of December 31, 2009, the weighted average remaining life for customer lists and relationships, non-compete agreements and other intangible assets was 4.3 years, 2.2 years and 3.6 years, respectively. We have reviewed the estimated period of consumption for our intangible assets. As of December 31, 2009, there was no indication of impairment related to our intangible assets. Our intangible assets have estimated useful lives which range up to nine years. We will amortize the remaining net book values of intangible assets over their remaining useful lives.

On an ongoing basis, we evaluate our strategic position in several markets. As we review our portfolio of services, we may exit certain markets or reposition certain service offerings within our business. This evaluation may result in us redefining our operating segments and may impact a significant portion of one or more of our reporting units. If such actions occur, they may be considered triggering events that would result in us performing an interim impairment test of our goodwill and an impairment test of our intangible assets.

On January 1, 2009, we adopted a new accounting standard which emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. Various valuation techniques are outlined in the standard, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The adoption of this new accounting standard did not have a material impact on our financial statements for the year ended December 31, 2009.

We use various methods to determine fair value, including market, income, and cost approaches. With these approaches, we adopt certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation. Inputs to valuation can be readily observable, market-corroborated, or unobservable. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value measurements used for our goodwill impairment testing use significant unobservable inputs which reflect our own assumptions about the inputs that market participants would use in measuring fair value including risk considerations.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The changes in carrying values of goodwill and intangible assets (shown in thousands) are as follows:

	For the Year Ended December 31, 2009	2008
Balance as of the beginning of the period Goodwill, net	$ 463,058	$ 430,768
Goodwill acquired during the period	12,061	69,801
Adjustments to goodwill		(6,905)
Foreign currency translation goodwill, net	9,982	(30,606)
Balance as of the end of the period Goodwill, net	$ 485,101	$ 463,058
Balance as of the beginning of the period Intangible assets, net	$ 38,108	$ 57,755
Intangible assets acquired during the period	2,861	5,894
Adjustments to intangible assets	(270)	
Foreign currency translation intangible assets, net	2,667	(9,155)
Less amortization expense	(13,014)	(16,386)
Balance as of the end of the period Intangible assets, net	$ 30,352	$ 38,108

For the businesses acquired during the year ended December 31, 2009, we have allocated the purchase prices, including amounts assigned to goodwill and intangible assets, and made estimates of their related useful lives. The amounts assigned to intangible assets for the businesses acquired include non-compete agreements, client lists and relationships, backlog revenue, and trade names.

During the quarter ended March 31, 2008, we recorded a reduction to goodwill and a related reduction to paid-in-capital of $6.8 million to reflect a discount for lack of marketability on common stock with transfer restrictions issued in connection with acquisition purchase agreements. The fair value of the discount for lack of marketability was determined using a protective put approach that considered entity-specific assumptions, including the duration of the transfer restriction periods for the share issuances and applicable volatility of our common stock for those periods. In addition, we recorded a reduction to goodwill and a related reduction to deferred income taxes of $0.5 million to reflect the tax impact of such adjustments. Also, we recorded $0.4 million of goodwill related to purchase price adjustments related to certain 2007 acquisitions.

As of December 31, 2009, goodwill and intangible assets, net of amortization, was $219.3 million for our North American Dispute and Investigative Services segment, $179.8 million for our North American Business Consulting Services segment, $58.0 million for our International Consulting Operations segment and $58.4 million for our Economics Consulting Operations segment. As of December 31, 2008, goodwill and intangible assets, net of amortization, was $214.4 million for our North American Dispute and Investigative Services segment, $171.4 million for our North American Business Consulting Services segment, $55.9 million for our International Consulting Operations segment and $59.5 million for our Economics Consulting Operations segment.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total amortization expense for 2009 was $13.0 million, compared with $16.4 million and $17.5 million for 2008 and 2007, respectively. Below is the estimated annual aggregate amortization expense to be recorded in future years related to intangible assets at December 31, 2009 (shown in thousands):

Year Ending December 31,	Amount
2010	$ 10,066
2011	7,601
2012	5,178
2013	4,060
2014	2,537
Thereafter	910
Total	$ 30,352

6. NET INCOME PER SHARE (EPS)

Basic net income per share (EPS) is computed by dividing net income by the number of basic shares. Basic shares are the total of the common stock outstanding and the equivalent shares from obligations presumed payable in common stock, both weighted for the average days outstanding for the period. Basic shares exclude the dilutive effect of common stock that could potentially be issued due to the exercise of stock options, vesting of restricted shares, or satisfaction of necessary conditions for contingently issuable shares. Diluted EPS is computed by dividing net income by the number of diluted shares, which are the total of the basic shares outstanding and all potentially issuable shares, based on the weighted average days outstanding for the period.

The components of basic and diluted shares (shown in thousands and based on the weighted average days outstanding for the periods) are as follows:

	For the Year Ended December 31,		
	2009	2008	2007
Common shares outstanding	48,173	46,522	49,236
Business combination obligations payable in a fixed number of shares	11	79	275
Basic shares	48,184	46,601	49,511
Employee stock options	350	446	577
Restricted shares and stock units	194	375	439
Business combination obligations payable in a fixed dollar amount of shares	1,029	846	132
Contingently issuable shares	38	17	98
Diluted shares	49,795	48,285	50,757

For the years ended December 31, 2009, 2008 and 2007, we had outstanding stock options of approximately 333,000, 394,000 and 402,000, respectively, which were excluded from the computation of diluted shares. These were excluded from the diluted share computation because they had exercise prices greater than the average market price and the impact of including these options in the diluted share calculation would have been antidilutive.

In connection with certain business acquisitions, we are obligated to issue a certain number of shares of our common stock. Obligations to issue a fixed number of shares are included in the basic earnings per share

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

calculation. Obligations to issue a fixed dollar amount of shares where the number of shares is based on the trading price of our shares at the time of issuance are included in the diluted earnings per share calculation.

We use the treasury stock method to calculate the dilutive effect of our common stock equivalents should they vest. The exercise of stock options or vesting of restricted shares and restricted stock unit shares triggers excess tax benefits or tax deficiencies that reduce or increase the dilutive effect of such shares being issued. The excess tax benefits or deficiencies are based on the difference between the market price of our common stock on the date the equity award is exercised or vested and the cumulative compensation cost of the stock options, restricted shares and restricted stock units. These excess tax benefits are recorded as a component of additional paid-in capital in the accompanying consolidated balance sheets and, as a component of financing cash flows in the accompanying consolidated statements of cash flows.

7. STOCKHOLDERS EQUITY

For the year ended December 31, 2009

During the year ended December 31, 2009, we issued 596,000 shares of our common stock in connection with deferred purchase price obligations relating to prior year acquisitions.

For the year ended December 31, 2008

As part of the acquisitions consummated during 2008, we issued 384,000 shares of our common stock valued at $6.2 million, in aggregate. During the year ended December 31, 2008, we issued 174,000 shares of our common stock in connection with deferred purchase price obligations relating to prior year acquisitions.

For the year ended December 31, 2007

In June 2007, we completed our modified Dutch Auction tender offer and purchased 10.6 million shares of our common stock at a purchase price of $20.50 per share. Additionally, we recorded management and agent fees related to the tender offer as part of the costs of the purchase of our common stock. We account for treasury stock transactions using the cost method.

As part of the annual bonus incentive compensation for 2006, we granted approximately 310,000 shares of restricted stock, in lieu of cash bonus, to our employees during the first quarter 2007. These shares, which had an aggregate value of $5.7 million based on the market value of our common stock price at the grant date, vested six months from the grant date.

As part of the acquisitions consummated during 2007, we issued 500,000 shares of our common stock valued at $7.8 million, in aggregate. During the year ended December 31, 2007, we issued 330,000 shares of our common stock in connection with deferred purchase price obligations relating to prior year acquisitions.

Stockholder Rights Plan

On December 15, 2009, the stockholder rights plan adopted by our board of directors on December 15, 1999 expired and we did not extend or adopt a new rights plan.

Other Information

We did not have any preferred stock transactions during the years ended December 31, 2009, 2008 or 2007.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. SHARE-BASED COMPENSATION EXPENSE

Summary

On June 30, 1996, we adopted a long-term incentive plan that provides for common stock, common stock-based and other performance incentives to our employees, consultants, directors, advisors and independent contractors. On May 4, 2005, our shareholders approved, at the 2005 annual meeting of shareholders, an additional long-term incentive plan. The long-term incentive plan adopted in 2005 provided for an additional 5.25 million shares of our common stock available to be issued under the plan. In November 2001, we adopted a supplemental equity incentive plan to retain and recruit certain middle and senior-level employees and to optimize shareholder value. Our supplemental equity incentive plan only provides for the grant of nonqualified stock options. The supplemental equity incentive plan did not require shareholder approval; therefore, it was not voted on or approved by our stockholders.

The purposes of the plans are to (1) align the interests of our shareholders and recipients of awards under the plan, (2) attract and retain officers, other employees, non-employee directors, consultants, independent contractors and agents, and (3) motivate such persons to act in the long-term best interests of our shareholders. The incentives offered by us under the plans are an important component of the compensation for the recipients.

Share-based Compensation Plans

The share-based compensation plans use restricted stock, stock options, and an employee stock purchase plan to provide incentives to our employees.

Restricted Stock Outstanding

As of December 31, 2009, we had 1.4 million restricted stock and equivalent units outstanding at a weighted average measurement price of $17.25 per share. The measurement price is the market price of our common stock at the date of grant of the restricted stock awards and equivalent units. The restricted stock and equivalent units were granted out of our long-term incentive plan.

During the year ended December 31, 2007, we issued 2.0 million shares of restricted stock related to annual bonus incentive compensation, performance incentive initiatives, and recruiting efforts. During the first quarter 2007, as part of the annual bonus incentive compensation, we granted approximately 310,000 shares of restricted stock, in lieu of cash bonus, to our employees. We also granted approximately 110,000 shares of restricted stock to our employees as a match for the annual bonus received in shares of restricted stock in lieu of cash. These shares vested in three equal installments over 18 months from the grant dates.

On March 13, 2007 and April 30, 2007, we issued a total of 1.2 million shares of restricted stock, with an aggregate market value of $22.6 million based on the market value of our common stock price at the grant date, to key senior consultants and senior management as part of a key leader incentive program. The restricted stock awards will vest seven years from the grant date, with the opportunity for accelerated vesting over five years based upon the achievement of certain targets related to our consolidated operating performance. The compensation associated with these awards is being recognized over the probable period in which the restricted stock awards will vest. We review the likelihood of required performance achievements on a periodic basis and adjust compensation expense on a prospective basis to reflect any changes in estimates to properly reflect compensation expense over the remaining balance of the service or performance period. During the fourth quarter of 2008, based on operating performance, we changed our estimate and lengthened the amount of time expected for performance achievement of 20% of the awards outstanding. During the fourth quarter of 2008, the compensation committee of our board of directors approved a 20% accelerated vest to occur in March 2009. As such, compensation expense was adjusted prospectively to reflect these changes. For the 2009 performance period, which began in January of 2009, we are recognizing share-based

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

compensation expense for another 20% of the outstanding award over the remaining five year period of the seven year service period. Compensation expense for the remaining 40% restricted stock awards outstanding will commence once the explicit performance period begins or the intrinsic service period starts. As of December 31, 2009, approximately 0.7 million of these restricted stock awards remain outstanding and 0.2 million shares have vested.

During the three months ended March 31, 2009, our compensation committee of the board of directors approved a new long-term incentive performance program. The program provides for grants of restricted stock awards and/or cash, based on individual employee elections, to key senior practitioners and senior management, excluding named executive officers, for achievement of certain targets related to our consolidated operating performance. These awards, if any, will be based on our annual operating performance and will be granted in March of the following year. Any awards made pursuant to this program will have a three year cliff vesting schedule from the grant date. Compensation expense related to this program for the year ended December 31, 2009 was not material.

Except for the awards issued in connection with the key leader incentive program, the remaining awards outstanding at December 31, 2009 vest over four years, generally in 25 percent annual installments from the grant date.

The following table summarizes restricted stock activity:

	For the Year Ended December 31,					
	2009		2008		2007	
	Number of Shares (000s)	Weighted Average Measurement Date Price	Number of Shares (000s)	Weighted Average Measurement Date Price	Number of Shares (000s)	Weighted Average Measurement Date Price
Restricted stock and equivalents outstanding at beginning of year	1,678	$ 19.00	2,264	$ 19.45	1,963	$ 19.07
Granted	327	12.68	172	17.72	1,986	18.71
Vested	(511)	20.19	(479)	20.02	(1,054)	17.50
Forfeited	(138)	19.13	(279)	19.43	(631)	19.20
Restricted stock and equivalents outstanding at end of year	1,356	$ 17.25	1,678	$ 19.00	2,264	$ 19.45

As of December 31, 2009, we had $14.9 million of total compensation costs related to the outstanding or unvested restricted stock that have not been recognized as share-based compensation expense. The compensation costs will be recognized as expense over the remaining vesting periods. The weighted-average remaining vesting period is approximately three years.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information regarding restricted stock outstanding:

Range of Measurement Date Prices	December 31, 2009 Outstanding Shares (000s)	December 31, 2009 Weighted Average Measurement Date Price	December 31, 2008 Outstanding Shares (000s)	December 31, 2008 Weighted Average Measurement Date Price
$0.00 $17.99	416	$ 13.37	135	$ 16.05
$18.00 $18.99	560	18.56	820	18.56
$19.00 $20.99	374	19.52	641	19.56
$21.00 $24.99	6	21.36	45	22.26
$25.00 and above			37	25.97
Total	1,356	$ 17.25	1,678	$ 19.00

The median measurement price of outstanding restricted shares as of December 31, 2009 and 2008 was $19.76 and $19.57, respectively.

Stock Options Outstanding

As of December 31, 2009, we had 1.4 million stock options outstanding at a weighted average exercise price of $9.33 per share. As of December 31, 2009, 1.1 million stock options were exercisable at a weighted average exercise price of $8.08 per share. As of December 31, 2009, the intrinsic value of the stock options outstanding and stock options exercisable was $9.5 million and $8.7 million, respectively, based on a market price of $14.86 for our common stock at December 31, 2009.

The following table summarizes stock options:

	For the Year Ended December 31,					
	2009		2008		2007	
	Number of Shares (000s)	Weighted Average Exercise Price	Number of Shares (000s)	Weighted Average Exercise Price	Number of Shares (000s)	Weighted Average Exercise Price
Options outstanding at beginning of year	1,329	$ 9.24	1,679	$ 10.10	1,917	$ 9.13
Granted	267	12.07	10	16.68	109	18.86
Exercised	(111)	4.55	(221)	5.33	(310)	6.02

Forfeited or exchanged	(75)		24.40	(139)		26.39	(37)		21.32
Options outstanding at end of year	1,410	$	9.33	1,329	$	9.24	1,679	$	10.10
Options exercisable at end of year	1,079	$	8.08	1,212	$	8.23	1,492	$	8.87

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information regarding stock options outstanding:

	December 31, 2009			December 31, 2008		
Range of Exercise Prices	**Outstanding Shares (000s)**	**Weighted Average Exercise Price**	**Remaining Exercise Period (Years)**	**Outstanding Shares (000s)**	**Weighted Average Exercise Price**	**Remaining Exercise Period (Years)**
$0.00 to $3.74	161	$ 3.68	1.6	183	$ 3.68	2.6
$3.75 to $4.99	401	3.93	0.7	482	3.94	1.7
$5.00 to $9.99	288	6.08	2.6	292	6.09	3.7
$10.00 to $19.99	472	15.03	4.3	217	18.53	4.0
$20.00 and above	88	24.30	1.6	155	25.22	1.8
Total	1,410	$ 9.33	2.5	1,329	$ 9.24	2.6

The following table summarizes information regarding stock options exercisable as of December 31, 2009:

Range of Exercise Prices	Outstanding Shares (000s)	Weighted Average Exercise Price	Remaining Exercise Period (Years)
$0.00 to $3.74	161	$ 3.68	1.6
$3.75 to $4.99	401	3.93	0.7
$5.00 to $9.99	288	6.08	2.6
$10.00 to $19.99	141	18.84	3.1
$20.00 and above	88	24.30	1.6
Total	1,079	$ 8.08	1.7

The following table summarizes the information regarding stock options outstanding by each plan as of December 31, 2009:

	Outstanding Shares	Weighted Average Exercise	Shares Remaining Available for Future Issuances

Plan Category	(000s)	Price	(000s)
Long-Term Incentive Plan	1,323	$ 9.07	3,185
Supplemental Equity Incentive Plan	87	13.34	224
Total	1,410	$ 9.33	3,409

Shares issued from our long-term incentive plan are new shares, and shares issued from our supplemental equity incentive plan are issued from treasury.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Stock Options Grants

The fair value of each option grant is estimated as of the grant date using the Black-Scholes-Merton option-pricing model. The weighted average fair value of options granted and the assumptions used in the Black-Scholes-Merton option pricing model were as follows:

	2009	2008	2007
Fair value of options granted	$ 5.97	$ 8.69	$ 10.00
Expected volatility	60%	60%	61%
Risk free interest rate	2.1%	2.9%	4.7%
Forfeiture rate	0%	0%	0%
Dividend yield	0%	0%	0%
Contractual or expected lives (years)	4.5	4.5	4.5

We estimated a zero forfeiture rate for these stock option grants as the awards have short vesting terms or have a low probability of forfeiture based on recipient.

Share-based Compensation Expense

Share-based compensation expense is recorded for restricted stock awards and certain stock options on a straight-line basis over the vesting term based on the fair value at grant date. The agreements for certain restricted stock awards outstanding at December 31, 2009 contain provisions that allow for an acceleration of vesting if we achieve a certain level of financial performance. Accordingly, we may accelerate the unamortized compensation expense related to those awards and, therefore, we may experience variations in share-based compensation expense from period to period.

Total share-based compensation expense consisted of the following (shown in thousands):

	For the Year Ended December 31,		
	2009	2008	2007
Amortization of restricted stock awards	$ 6,378	$ 10,372	$ 13,244
Amortization of stock option awards	734	697	860
Fair value adjustment for variable stock option accounting awards	(16)	62	(130)
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	382	950	1,011
Other share-based compensation expense		(242)	425
Total share-based compensation expense	$ 7,478	$ 11,839	$ 15,410

We estimate the number of restricted stock awards granted that would not vest due to employee forfeiture and accordingly record a reduction of compensation expense for these awards over the amortization period. We review our estimates of allowance for forfeiture on a periodic basis. During the fourth quarter 2007, we changed our estimate of expected forfeiture from 5 percent to 8 percent and accordingly recorded a cumulative credit adjustment of $1.2 million to share-based compensation expense. The forfeiture rate did not change materially in 2008 or 2009.

Share-based compensation expense attributable to consultants was included in cost of services before reimbursable expenses. Share-based compensation expense attributable to corporate management and support personnel was included in general and administrative expenses.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table shows the amounts attributable to each category:

	For the Year Ended December 31,		
	2009	2008	2007
Cost of services	$ 5,083	$ 9,087	$ 12,247
General and administrative expenses	2,395	2,752	3,163
Total share-based compensation expense	$ 7,478	$ 11,839	$ 15,410

Income tax benefits recorded in the accompanying statements of income related to share-based compensation expense for the years ended December 31, 2009, 2008, and 2007 was $3.2 million, $5.0 million, and $6.6 million, respectively, using our effective income tax rate of 43 percent.

During the years ended December 31, 2009, 2008, and 2007, we received $3.2 million, $6.6 million, and $8.3 million of cash from employee stock option exercises and employee stock purchases. Additionally, during the years ended December 31, 2009, 2008, and 2007, we generated excess tax benefits of $0.1 million, $1.1 million, and $2.4 million, respectively, related to employee stock option exercises transactions.

Employee Stock Purchase Plan

During 1996, we implemented an employee stock purchase plan, which was subsequently replaced at our annual stockholders meeting on May 3, 2006. At that meeting, our stockholders approved a new employee stock purchase plan that became effective on January 1, 2007. The employee stock purchase plan permits employees to purchase shares of our common stock each quarter at 85 percent of the market value. Effective April 1, 2009, we changed the purchase price of our common stock under the plan to be 90 percent of the market value. The market value of shares purchased for this purpose is determined to be the closing market price on the last day of each calendar quarter. The plan is considered compensatory and, as such, the purchase discount from market price purchased by employees is recorded as compensation expense. During the years ended December 31, 2009, 2008, and 2007, we recorded $0.4 million, $1.0 million and $1.0 million, respectively, related to the discount given on employee stock purchases through our employee stock purchase plan. During the years ended December 31, 2009, 2008, and 2007, we issued 223,000, 340,000 and 410,000 shares, respectively, of our common stock related to this plan.

The maximum number of shares of our common stock remaining as of December 31, 2009 that can be issued under the employee stock purchase plan is 1.5 million shares, subject to certain adjustments. The employee stock purchase plan will expire on the date that all of the shares available under it are issued to employees.

9. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

Accounts Receivable

The components of accounts receivable as of December 31 were as follows (shown in thousands):

	2009	2008
Billed amounts	$ 138,114	$ 142,503
Engagements in process	45,291	49,319
Allowance for uncollectible accounts	(19,797)	(21,358)
	$ 163,608	$ 170,464

Receivables attributable to engagements in process represent balances for services that have been performed and earned but have not been billed to the client. Billings are generally done on a monthly basis for

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the prior month s services. Our allowance for doubtful accounts receivable is based on historical experience and management judgment and may change based on market conditions or specific client circumstances.

Prepaid expenses and other current assets

The components of prepaid expenses and other current assets as of December 31 were as follows (shown in thousands):

	2009	2008
Notes receivable current	$ 4,845	$ 4,595
Income taxes receivable	3,174	
Other prepaid expenses and other current assets	8,355	8,860
Prepaid expenses and other current assets	$ 16,374	$ 13,455

Other assets

The components of other assets as of December 31 were as follows (shown in thousands):

	2009	2008
Notes receivable non-current	$ 10,131	$ 13,905
Prepaid expenses and other non-current assets	3,508	3,624
Other assets	$ 13,639	$ 17,529

Notes receivable represent unsecured forgivable loans with terms of four to five years with an original principal amount aggregating $22.8 million to certain senior consultants. Beginning in 2007, the loans were issued to retain and motivate highly-skilled professionals. The principal amount and accrued interest is expected to be forgiven by us over the term of the loans, so long as the professionals continue employment and comply with certain contractual requirements. Certain events such as death or disability, termination by us for cause or voluntarily by the employee will result in earlier repayment of any unforgiven loan amounts. The expense associated with the forgiveness of the principal amount of the loan is recorded as compensation expense over the service period, which is consistent with the term of the loans. The accrued interest is calculated based on the loan s effective interest rate (approximately 5.3% per year) and is recorded as interest income. The forgiveness of such accrued interest is recorded as compensation expense, which aggregated $1.2 million and $0.8 million for the years ended December 31, 2009 and 2008, respectively. During the year ended December 31, 2009, $3.2 million, in aggregate, of the principal amount of the loans were forgiven as the services and contractual requirements had been performed up to the due dates of the principal amounts payable.

Property and Equipment

Property and equipment as of December 31 consisted of (shown in thousands):

	2009	2008
Furniture, fixtures and equipment	$ 54,169	$ 49,668
Software	27,308	24,056
Leasehold improvements	39,587	40,159
Property and equipment, at cost	121,064	113,883
Less: accumulated depreciation and amortization	(78,089)	(68,732)
Property and equipment, net	$ 42,975	$ 45,151

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended December 31, 2009, 2008, and 2007, we recorded depreciation expense of $17.6 million, $17.3 million and $16.2 million, respectively. As of December 31, 2009, we had a $5.0 million construction in progress balance within our property and equipment accounts which was primarily related to internally used software. Depreciation for items in the construction in progress balance will commence when assets are ready for use.

Other Current Liabilities

The components of other current liabilities as of December 31 were as follows (shown in thousands):

	2009	2008
Deferred business acquisition obligations	$ 7,588	$ 10,899
Deferred revenue	13,039	13,685
Deferred rent	1,401	2,470
Commitments on abandoned real estate (see Note 13)	4,141	1,112
Interest rate swap liability (see Note 11)	4,116	
Other liabilities	4,156	3,301
	$ 34,441	$ 31,467

The deferred business acquisition obligations of $7.6 million at December 31, 2009 consisted of cash obligations and fixed monetary obligations payable in shares of our common stock. As of December 31, 2009, we were obligated to issue shares of common stock amounting to $5.6 million. The number of shares to be issued is based on the trading price of our common stock for a period of time prior to the issuance dates. The deferred business acquisition obligations of $10.9 million at December 31, 2008 consisted of cash obligations and fixed monetary obligations payable in shares of our common stock. The liability for deferred business acquisition obligations has been discounted to net present value.

The current portion of deferred rent relates to rent allowances and incentives on lease arrangements for our office facilities that expire at various dates through 2017. The expected sublease income is subject to market conditions and may be adjusted in future periods as necessary.

Deferred revenue represents advance billings to our clients, for services that have not been performed and earned.

Other Non-Current Liabilities

The components of other non-current liabilities as of December 31 were as follows (shown in thousands):

	2009	2008
Deferred business acquisition obligations	$ 6,311	$ 11,277

Deferred rent long-term	9,740	9,995
Commitments on abandoned real estate (see Note 13)	4,660	2,884
Interest rate swap liability (asset) (see Note 11)	(168)	9,585
Other non-current liabilities	3,380	3,595
	$ 23,923	$ 37,336

The deferred business acquisition obligations of $6.3 million and $11.3 million at December 31, 2009 and December 31, 2008, respectively, consisted of cash obligations and fixed monetary obligations payable in shares of our common stock. As of December 31, 2009, we were obligated to issue shares of common stock amounting to $5.3 million. The number of shares to be issued is based on the trading price of our common

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stock for a period of time prior to the issuance dates. The liability for deferred business acquisition obligations has been discounted to net present value.

The long-term portion of deferred rent is primarily rent allowances and incentives related to leasehold improvements on lease arrangements for our office facilities that expire at various dates through 2020.

Notes Payable Current and Non-Current

Current notes payable as of December 31 were as follows (shown in thousands):

	2009	2008
Note related to the Abros acquisition	$	$ 362
Note related to the Troika acquisition		3,811
Total current notes payable	$	$ 4,173

10. SUPPLEMENTAL CONSOLIDATED CASH FLOW INFORMATION

2009 Non-Cash Transactions

During the year ended December 31, 2009, as part of the purchase price agreements for acquired businesses during the year, we entered into commitments totaling $2.0 million of deferred cash payments. In addition, as part of the purchase price agreements for acquired businesses during the previous years, we issued $7.0 million of our common stock, which were recorded in current liabilities.

2008 Non-Cash Transactions

During the year ended December 31, 2008, as part of the purchase price agreements for acquired businesses during the year, we entered into commitments totaling $1.9 million of deferred cash payments and $21.0 million of deferred stock issuances. We also entered into software license commitments for $2.5 million related to a future enterprise resource planning system.

2007 Non-Cash Transactions

During the year ended December 31, 2007, as part of the purchase price agreements for acquired businesses during the year, we entered into commitments totaling $3.1 million of deferred cash payments, $1.0 million of deferred stock issuances and $10.8 million of notes payable.

Other Information

Total interest paid during the years ended December 31, 2009, 2008 and 2007 was $13.9 million, $19.7 million and $14.0 million, respectively. Total income taxes paid during the years ended December 31, 2009, 2008 and 2007 were $11.3 million, $32.9 million, and $27.3 million, respectively.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. COMPREHENSIVE INCOME

Comprehensive income, which consists of net income, foreign currency translation adjustments and unrealized gain or loss on our interest rate swap agreement, was as follows (shown in thousands):

	For the Year Ended December 31, 2009	2008	2007
Net income	$ 21,947	$ 40,057	$ 33,396
Foreign currency translation adjustment	13,088	(33,321)	6,391
Unrealized net gain (loss) on interest rate derivative, net of income taxes	3,079	(1,968)	(3,467)
Comprehensive income	$ 38,114	$ 4,768	$ 36,320

On July 2, 2007, we entered into an interest rate swap agreement with a bank for a notional value of $165.0 million through June 30, 2010. This agreement effectively fixed our LIBOR base rate for $165.0 million of our indebtedness at a rate of 5.30% during this period. In December 2009, we entered into four interest rate swap agreements of equal amounts with four different banks for an aggregate notional value of $60.0 million. These agreements effectively fix $60.0 million of our LIBOR base rate of our indebtedness at an average rate of 1.83% beginning July 1, 2010. These agreements mature concurrent with the maturity of our credit facility in May 2012.

We expect the interest rate derivatives to be highly effective against changes in cash flows related to changes in interest rates and have recorded the derivative as a hedge. As a result, gains or losses related to fluctuations in fair value of the interest rate derivative are recorded as a component of accumulated other comprehensive income and reclassified into interest expense as the variable interest expense on our indebtedness is recorded. There was no ineffectiveness related to our hedges for the years ended December 31, 2009 and 2008.

As of December 31, 2009, we have a $3.9 million net liability related to the interest rate derivatives. During the year ended December 31, 2009, we recorded a $3.1 million unrealized gain related to our derivatives, which is net of income taxes of $2.6 million, to accumulated other comprehensive income. As of December 31, 2009, accumulated other comprehensive income is comprised of foreign currency translation loss of $10.7 million and unrealized net loss on interest rate derivatives of $2.3 million. As of December 31, 2008, accumulated comprehensive income is comprised of foreign currency translation loss of $23.8 million and unrealized net loss on interest rate derivative of $5.4 million.

12. CURRENT AND LONG TERM BANK DEBT

As of December 31, 2009, we maintained a bank borrowing credit agreement consisting of a $275.0 million revolving line of credit which, subject to certain bank approvals, includes an option to increase to $375.0 million and a $225.0 million unsecured term loan facility. Borrowings under the revolving credit facility are payable in May 2012. Our credit agreement provides for borrowings in multiple currencies including US Dollars, Canadian Dollars, UK

Pound Sterling and Euro. As of December 31, 2009, we had aggregate borrowings of $219.4 million, compared to $232.5 million as of December 31, 2008. At December 31, 2009, all of our borrowings were under the term loan facility of our credit agreement. Based on our financial covenant restrictions under our credit facility as of December 31, 2009, a maximum of approximately $70.0 million would be available in additional borrowings on our line of credit. In January 2010, we used a portion of our cash to prepay $40.0 million of our term loan facility under our credit facility which will reduce future required quarterly payments on a pro rata basis. If this prepayment had happened on December 31, 2009 our availability to borrow on our line of credit would have been approximately $110 million.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

At our option borrowings under the revolving credit facility and the term loan facility bear interest, in general, based on a variable rate equal to an applicable base rate or LIBOR, in each case plus an applicable margin. For LIBOR loans, the applicable margin will vary depending upon our consolidated leverage ratio (the ratio of total funded debt to adjusted EBITDA) and whether the loan is made under the term loan facility or revolving credit facility. As of December 31, 2009, the applicable margins on LIBOR loans under the term loan facility and revolving credit facility were 1.25% and 1.0%, respectively. As of December 31, 2009, the applicable margins for base rate loans under the term loan facility and revolving credit facility were 0.25% and zero, respectively. For LIBOR loans, the applicable margin will vary between 0.50% to 1.75% depending upon our performance and financial condition. Our average borrowing rate under our credit agreement (including the impact of our interest rate swap agreement see Note 11 Comprehensive Income) was 5.6% and 6.5% for 2009 and 2008, respectively.

Our credit agreement also includes certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.25:1 and a consolidated fixed charge coverage ratio (the ratio of the sum of adjusted EBITDA and rental expense to the sum of cash interest expense and rental expense) of not less than 2.0:1. At December 31, 2009, under the definitions in the credit agreement, our consolidated leverage ratio was 2.5 and our consolidated fixed charge coverage ratio was 3.3. In addition to the financial covenants, our credit agreement contains customary affirmative and negative covenants and is subject to customary exceptions. These covenants limit our ability to incur liens or other encumbrances or make investments, incur indebtedness, enter into mergers, consolidations and asset sales, pay dividends or other distributions, change the nature of our business and engage in transactions with affiliates. We were in compliance with the terms of our credit agreement as of December 31, 2009 and 2008; however there can be no assurances that we will remain in compliance in the future.

The table below lists the maturities of debt outstanding as of December 31, 2009 (in thousands):

	Amount
2010	$ 12,375
2011	22,500
2012, through May 31	184,500
Total	$ 219,375

13. OTHER OPERATING COSTS

Other operating costs for the years ended December 31, 2009, 2008 and 2007 consisted of the following (shown in thousands):

	2009	2008	2007
Separation costs and severance	$	$	$ 7,288
Office consolidation:			

Adjustments to office closures obligations, discounted and net of expected sublease income	7,525	2,173	3,346
Write down of leasehold improvements		500	3,404
Accelerated depreciation on leasehold improvements due to expected office closures	1,285	2,534	
Gain on sale of property			(2,201)
Other operating costs	$ 8,810	$ 5,207	$ 11,837

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Separation costs and severance:

During 2007, we recorded $7.3 million in separation and severance costs in connection with a plan to restructure our operations as part of a cost savings initiative. The restructuring of our operations included involuntary professional consulting and administrative staff headcount reductions. We offered severance packages to approximately 160 consulting and administrative employees to reduce the capacity of our underperforming practices and to reduce the headcount of our administrative support staff.

Office consolidation:

During the third and fourth quarters of 2007, we began a program to eliminate duplicate facilities and consolidate and close certain offices. During the years ended December 31, 2009, 2008, and 2007 we recorded $8.8 million, $5.2 million and $6.8 million, respectively, of expense associated with the office closings, market adjustments to related sublease income and excess space reductions. The costs consisted of adjustments to office closure obligations, the write down of leasehold improvements and accelerated depreciation on leasehold improvements in offices to be abandoned. During 2009, office consolidation related costs primarily related to costs associated with the relocation of our New York office and reduction in space of our Los Angeles office. In determining our reserves for office consolidation expenses at December 31, 2009, we estimated future sublease proceeds based on market conditions of $4.2 million on three properties for which we do not have a contracted subtenant.

We continue to monitor our estimates for office closure obligations and related expected sublease income. Such estimates are subject to market conditions and have been adjusted and may be adjusted in future periods as necessary. During 2009, as a result of an assessment of our real estate needs subsequent to the acquisition of Chicago Partners, we decided to reoccupy a portion of certain property in Chicago, Illinois that had previously been abandoned. The net impact of this change in estimate did not have a material impact on the financial statements. Of the $8.8 million liability recorded at December 31, 2009, we expect to pay $4.1 million in cash relating to these obligations during the next twelve months. The office closure obligations have been discounted to net present value.

Gain on sale of property:

On September 28, 2007, we sold the property where our principal executive office was located for an aggregate gross purchase price of $4.5 million and recorded a $2.2 million gain on the sale of property.

Balance Sheet:

As of December 31, 2009 we have recorded $8.8 million in current and non-current liabilities related to office consolidations in the consolidated balance sheets. The activity for the years ended December 31, 2008 and 2009 is as follows (shown in thousands):

	Office Space Reductions	Workforce Reductions

Balance at December 31, 2007	$	5,212	$	1,199
Charges to operations during the year ended December 31, 2008		2,673		
Utilized during the year ended December 31, 2008		(3,889)		(1,199)
Balance at December 31, 2008	$	3,996	$	
Charges to operations during the year ended December 31, 2009		7,525		
Utilized during the year ended December 31, 2009		(2,720)		
Balance at December 31, 2009	$	8,801	$	

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. LEASE COMMITMENTS

We lease office facilities under operating lease arrangements that expire at various dates through 2020. We lease office facilities under non-cancelable operating leases that include fixed or minimum payments plus, in some cases, scheduled base rent increases over the terms of the leases and additional rents based on the Consumer Price Index. Certain leases provide for monthly payments of real estate taxes, insurance and other operating expenses applicable to the property. Some of our leases contain renewal provisions.

Future minimum annual lease payments for the years subsequent to December 31, 2009 and in the aggregate are as follows (shown in thousands):

Year Ending December 31,	Amount
2010	$ 24,818
2011	23,900
2012	19,641
2013	16,490
2014	14,426
Thereafter	34,019
	$ 133,294

During 2007, we began a program to eliminate duplicate facilities, consolidate and close certain offices. Of the $133.3 million lease commitments as of December 31, 2009, $23.2 million of the lease commitments relate to offices we have abandoned or reduced excess space within, which have been subleased or are available for sublease. As of December 31, 2009, we have contractual subleases of $8.2 million, which is not reflected in the commitment table above. Such sublease income would offset the cash outlays. Additionally, we intend to secure subtenants for the properties available for sublease to offset the rent payments and will seek to exercise termination clauses, if any, to shorten the term of the lease commitments. Such sublease income, if any, would offset the cash outlays. The lease commitments for these offices extend through 2017.

Rent expense for operating leases was $27.6 million, $25.6 million and $25.8 million for the years ended December 31, 2009, 2008 and 2007, respectively.

15. INCOME TAXES

The sources of income before income taxes are as follows (shown in thousands):

For the Year Ended December 31,

	2009	2008	2007
United States	$ 39,860	$ 66,509	$ 63,420
Other	(1,812)	3,343	(4,882)
Total income before income tax expense	$ 38,048	$ 69,852	$ 58,538

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income tax expense (benefit) consists of the following (shown in thousands):

	For The Year Ended December 31,		
	2009	**2008**	**2007**
Federal:			
Current	$ 6,366	$ 23,548	$ 19,122
Deferred	6,614	(1,093)	1,930
Total	12,980	22,455	21,052
State:			
Current	1,382	6,002	4,946
Deferred	1,688	(279)	493
Total	3,070	5,723	5,439
Foreign:			
Current	1,987	4,706	2,056
Deferred	(1,936)	(3,089)	(3,405)
Total	51	1,617	(1,349)
Total federal, state and foreign income tax expense	$ 16,101	$ 29,795	$ 25,142

Income tax expense differs from the amounts estimated by applying the statutory income tax rates to income before income taxes as follows:

	For the Year Ended December 31,		
	2009	**2008**	**2007**
Federal tax expense at the statutory rate	35.0%	35.0%	35.0%
State tax expense at the statutory rate, net of federal tax benefits	5.8	5.3	6.0
Foreign taxes	0.6	0.8	0.5
Effect of non-deductible meals and entertainment expense	1.3	1.2	1.3
Effect of enacted tax rate changes			(1.3)
Effect of other transactions, net	(0.4)	0.4	1.5
	42.3%	42.7%	43.0%

During the year ended December 31, 2009, we recorded adjustments of $1.3 million to increase income taxes payable related to net tax deficits associated with the vests of restricted stock, exercises of nonqualified stock options, and disqualifying disposition of incentive stock options. During the year ended December 31, 2008 and 2007, we recorded adjustments of $0.6 million and $1.6 million, respectively, to reduce income taxes payable related to excess tax benefits associated with vests of restricted stock, exercises of nonqualified stock options, and disqualifying dispositions of incentive stock options. Such income taxes payable adjustments were reflected in additional paid in-capital for each year.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred income taxes result from temporary differences between years in the recognition of certain expense items for income tax and financial reporting purposes. The source and income tax effects of these differences (shown in thousands) are as follows:

	December 31, 2009	December 31, 2008
Deferred tax assets (liabilities) attributable to:		
Allowance for uncollectible receivables	$ 7,879	$ 8,558
Deferred revenue	3,626	3,330
Accrued compensation	3,734	2,468
Accrued office consolidation costs	2,754	2,683
Interest rate derivatives	1,706	4,150
Depreciation and amortization	1,412	1,850
Share-based compensation	3,415	4,977
Forgivable loans	1,989	1,318
Tax credits and capital loss carry forward		396
Other	1,192	1,028
Deferred tax assets	27,707	30,758
Acquisition costs domestic acquisitions	(38,166)	(29,907)
Acquisition costs foreign acquisitions	(6,591)	(7,427)
Prepaid expenses	(994)	
Change in accounting method		(441)
Deferred tax liabilities	(45,751)	(37,775)
Net deferred tax liabilities	$ (18,044)	$ (7,017)

As of December 31, 2009 and 2008, we had a valuation allowance of $1.0 million and $0.8 million related to certain foreign operating loss carry forwards. We have not recorded a valuation allowance against any of our other deferred tax assets, because we believe it is more likely than not that such deferred tax assets are recoverable from future results of operations.

We do not provide for U.S. federal income and foreign withholding taxes on the portion of undistributed earnings of foreign subsidiaries that are intended to be permanently reinvested. The cumulative amount of such undistributed earnings totaled approximately $28.8 million as of December 31, 2009. These earnings would become taxable in the United States upon the sale or liquidation of these foreign subsidiaries or upon the remittance of dividends. It is not practicable to estimate the amount of the deferred tax liability on such earnings.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Amount (In thousands)
Balance at January 1, 2009	$ 818
Reductions based on tax positions of prior years	(565)
Settlements	459
Balance at December 31, 2009	$ 712

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Included in the balance at December 31, 2009 were $0.2 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate, but would accelerate the payment of cash to the taxing authority to an earlier period. We recognized interest accrued related to unrecognized tax benefits and penalties in income tax expense which were not material in 2009, 2008 and 2007.

Included in the balance at December 31, 2009 were $0.5 million of tax positions for which the ultimate deductibility is uncertain and so we did not recognize any income tax benefit for financial accounting purposes. We believe that only a specific resolution of the matters with the taxing authorities or the expiration of the statute of limitations would provide sufficient evidence for management to conclude that the deductibility is more likely than not sustainable.

We are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 2005. Substantially all material state and local and foreign income tax matters have been concluded for years through 2005. U.S. federal income tax returns for 2006 through 2008 are currently open for examination. As of December 31, 2009 there was an examination of the 2007 federal tax returns by the IRS.

16. FAIR VALUE

In September 2006, the Financial Accounting Standards Board issued a statement which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The implementation during the first quarter of 2008 did not have a material impact on our financial condition, results of operations, or cash flows. We deferred the adoption of this statement with respect to non-financial assets until January 1, 2009 which include goodwill, and intangible assets with indefinite lives. This implementation did not have a material effect on our financial condition, results of operations or cash flows.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3 Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our interest rate swaps (see Note 11 Comprehensive Income) are valued using counterparty quotations in over-the-counter markets. In addition, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk. The credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. However, as of December 31, 2009, we have assessed the significance of the impact on the overall valuation and believe that these adjustments are not significant. As such, our derivative instruments are classified within level 2.

Additionally, the value of our bank borrowing credit agreement (see Note 12 Current and Long Term Bank Debt) was estimated to be 4% below its carrying value based on unobservable Level 3 inputs such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. We consider the recorded value of our other financial assets and liabilities, which consist primarily of cash

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and cash equivalents, accounts receivable, and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 2009 and December 31, 2008 based upon the short-term nature of the assets and liabilities.

As of December 31, 2009 and 2008 our interest rate swaps were the only financial instruments carried at fair value on our financial statements. The following table summarizes the liability measured at fair value on a recurring basis at December 31, 2009 and 2008 (shown in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2009				
Interest rate swaps, net (recorded in other liabilities)		$ 3,948		$ 3,948
As of December 31, 2008				
Interest rate swap (recorded in other liabilities)		$ 9,585		$ 9,585

17. EMPLOYEE BENEFIT PLANS

We have a 401k plan and match an amount equal to 100 percent of the employee s current contributions, up to a maximum of 3 percent of the employee s total eligible compensation and limited to $5,100 per participant per year. We, as sponsor of the plan, use independent third parties to provide administrative services to the plan. We have the right to terminate the plans at any time. During the year ended December 31, 2009 we suspended the 401k plan match as part of our cost saving initiatives. We may reinstate the plan match during 2010. Our contributions were $3.2 million, $6.0 million and $6.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

We have other retirement plans for our foreign subsidiaries participants. During the year ended December 31, 2009, 2008 and 2007, we recorded expense of $3.8 million, $4.4 million and $2.8 million, respectively, for retirement savings related plans.

18. RELATED PARTY TRANSACTIONS

We lease office space from Equity Office Properties. William M. Goodyear was a trustee on the board of trustees at Equity Office Properties. Mr. Goodyear resigned as a trustee of Equity Office Properties during February 2007. During the year ended December 31, 2007 we paid $2.8 million to Equity Office Properties in connection with such space. These leases were executed at market terms.

19. LITIGATION AND SETTLEMENTS

From time to time, we are party to various lawsuits and claims in the ordinary course of business. While the outcome of those lawsuits or claims cannot be predicted with certainty we do not believe that any of those lawsuits or claims will have a material adverse effect on our financial condition or results of operations.

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SCHEDULE II

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2009, 2008 and 2007

Description	Balance at Beginning of Year	Charged to Expenses	Deductions(1)	Balance at End of Year
		(In thousands)		
Year ended December 31, 2009				
Allowance for doubtful accounts	$ 21,358	$ 15,053	$ (16,614)	$ 19,797
Year ended December 31, 2008				
Allowance for doubtful accounts	$ 12,674	$ 20,292	$ (11,608)	$ 21,358
Year ended December 31, 2007				
Allowance for doubtful accounts	$ 11,970	$ 9,518	$ (8,814)	$ 12,674

(1) Represents write-offs.

See accompanying report of independent registered public accounting firm.

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