

3,500,000 SHARES

LOGO
 COMMON STOCK

Of the 3,500,000 shares of Common Stock offered hereby, 2,300,000 shares are being sold by The Metzler Group, Inc. ("Metzler" or the "Company") and 1,200,000 shares are being sold by the Selling Stockholders. See "Principal and Selling Stockholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Stockholders.

Prior to this offering, there has been no public market for the Common Stock of the Company. See "Underwriting" for information relating to the factors considered in determining the initial public offering price.

The Common Stock has been approved for quotation on the Nasdaq National Market under the symbol "METZ."

 SEE "RISK FACTORS" BEGINNING ON PAGE 5 FOR INFORMATION THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | PRICE TO THE PUBLIC | UNDERWRITING DISCOUNTS AND COMMISSIONS (1) | PROCEEDS TO THE COMPANY (2) | PROCEEDS TO THE SELLING STOCKHOLDERS |
|----------------|---------------------------|--|-----------------------------------|--|
| Per Share..... | \$16.00 | \$1.12 | \$14.88 | \$14.88 |
| Total(3)..... | \$56,000,000 | \$3,920,000 | \$34,224,000 | \$17,856,000 |

- (1) See "Underwriting" for indemnification arrangements with the Underwriters.
- (2) Before deducting expenses estimated at \$750,000, which will be paid by the Company.
- (3) The Company and certain Selling Stockholders have granted to the Underwriters a 30-day option to purchase up to an additional 525,000 shares of Common Stock at the Price to the Public, less Underwriting Discounts and Commissions, solely to cover over-allotments, if any. If such option is exercised in full, the total Price to the Public, Underwriting Discounts and Commissions, Proceeds to the Company and Proceeds to the Selling Stockholders will be \$64,400,000, \$4,508,000, \$38,464,800 and \$21,427,200, respectively. The Company will not receive any of the proceeds from the sale of shares of Common Stock by the Selling Stockholders pursuant to the Underwriters' over-allotment option, if exercised. See "Underwriting" and "Principal and Selling Stockholders."

The shares of Common Stock are being offered by the several Underwriters when, as and if delivered to and accepted by the Underwriters and subject to various prior conditions, including their right to reject orders in whole or in part. It is expected that delivery of share certificates will be made in New York, New York, on or about October 9, 1996.

This Prospectus contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this Prospectus, the words "anticipate," "believe," "estimate," and "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. The Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include those discussed in "Risk Factors."

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET, IN THE OVER-THE-COUNTER MARKET, OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to, and should be read in conjunction with, the more detailed information and the Financial Statements and related Notes thereto appearing elsewhere in this Prospectus. Unless indicated otherwise, the information contained in this Prospectus: (i) assumes that the Underwriters' over-allotment option is not exercised; (ii) gives retroactive effect to the Company's reorganization as a Delaware holding company immediately prior to the consummation of this offering; and (iii) gives retroactive effect to the 9,714.285 for 1 split of the shares of common stock, \$.001 par value per share (the "Common Stock") in September 1996. Unless otherwise indicated, all references to "Metzler" or the "Company" include the Company and its subsidiaries.

THE COMPANY

The Metzler Group, Inc. is a leading nationwide provider of consulting services to electric utilities and other energy-related businesses. The Company offers a wide range of consulting services related to information technology, process/operations management, strategy, and marketing and sales designed to assist its clients in succeeding in a business environment of changing regulation, increasing competition and evolving technology. The Company has competed successfully in this environment, having achieved revenue growth of 29% from 1994 to 1995 and 93% from the six months ended June 30, 1995 to the corresponding period in 1996.

The changing competitive environment in the electric utility industry has forced utility companies to confront an evolving range of strategic options and challenges. In order to deal with these challenges and address these opportunities, electric utilities are formulating and implementing new strategies and tactics, including redesigning business processes, re-engineering work forces, acquiring more effective information technology and adopting or restructuring customer service and marketing programs. Utilities are increasingly turning to experienced outside consulting firms to assist in or lead this process because: (i) the pace of change is eclipsing utilities' internal resources; (ii) many utilities lack the depth and breadth of experience to identify, evaluate and implement the full range of possible options and solutions; (iii) outside specialists often enable electric utilities to develop better solutions in shorter time frames; (iv) purchasing consulting expertise converts fixed labor costs to variable costs and can be more cost-effective; and (v) consultants can often formulate more objective advice, free of internal cultural or political forces. Alpha Publications Ltd. estimates that in 1994 the market for consulting services to the utility industry represented approximately 8% of the \$20.5 billion total market for consulting services, and projects a 9% annual growth rate through 2000. Based upon these data, the Company estimates that the market for consulting services to the utility industry was approximately \$1.8 billion in 1995.

Metzler believes that several competitive factors distinguish it from other participants in the consulting market including: (i) established electric utility expertise developed over more than thirteen years of providing consulting services to the electric utility industry; (ii) deep-rooted client relationships supporting multiple engagements; (iii) proprietary knowledge base

that the Company has developed internally and continuously refines for incorporation into analysis for new engagements; (iv) wide range of industry-specific services that enables the Company to be a single-source provider of consulting services to utilities while maintaining advanced skill sets in each area; and (v) strategic planning methodology using a high-level modeling tool developed by Metzler to support the comprehensive strategic planning process of utilities.

Metzler's growth strategy includes the following elements: (i) further penetrating its existing client base; (ii) seeking new clients and expanding its geographic presence; (iii) continuing to recruit highly skilled professionals with skill sets and client relationships complementary to the Company's existing professional base; (iv) pursuing strategic acquisitions that provide the Company with an expeditious and cost-effective method of increasing its number of consultants, broadening its client base, expanding its skill sets or expanding its presence in a geographic region; and (v) expanding its service offerings to include other service areas that the Company believes will be in demand as the industry continues its move toward a more competitive environment.

THE OFFERING

| | |
|--|---|
| Common Stock offered by the Company. | 2,300,000 shares |
| Common Stock offered by the Selling Stockholders..... | 1,200,000 shares |
| Common Stock to be outstanding after the offering..... | 10,300,000 shares(1) |
| Use of proceeds..... | Repayment of indebtedness to the Company's founder incurred in connection with a redemption of Common Stock and general corporate purposes, including working capital and possible acquisitions of related businesses |
| Nasdaq National Market symbol..... | METZ |

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(1) Excludes: (i) options outstanding on the date hereof to purchase 355,666 shares at an exercise price of \$12.00; and (ii) 944,334 shares reserved for issuance upon exercise of options that may be granted in the future under the Company's Long-Term Incentive Plan. See "Management--Long-Term Incentive Plan," "Description of Capital Stock" and Note 8 of Notes to Financial Statements.

SUMMARY FINANCIAL DATA

| | YEARS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, | | | |
|--|---------------------------------------|---------|----------|----------|----------|---------------------------|---------|----------|-------------------|
| | 1991 | 1992 | 1993 | 1994 | 1995 | PRO FORMA 1995(1) | 1995 | 1996 | PRO FORMA 1996(2) |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | | | |
| Revenues..... | \$12,786 | \$9,216 | \$10,380 | \$10,420 | \$13,460 | \$13,460 | \$5,626 | \$10,857 | \$10,857 |
| Cost of services..... | 6,615 | 5,644 | 5,797 | 5,263 | 6,422 | 6,422 | 2,841 | 5,215 | 5,215 |
| Gross profit..... | 6,171 | 3,572 | 4,583 | 5,157 | 7,038 | 7,038 | 2,785 | 5,642 | 5,642 |
| Selling, general and administrative expenses(3)..... | 5,387 | 4,006 | 4,267 | 5,327 | 7,650 | 4,875 | 4,023 | 1,404 | 2,423 |
| Operating income (loss)..... | 784 | (434) | 316 | (170) | (612) | 2,163 | (1,238) | 4,238 | 3,219 |
| Other expense (income), net..... | (69) | (24) | 15 | 72 | 127 | 127 | 98 | 12 | 12 |

| | | | | | | | | | |
|--|--------|----------|--------|----------|----------|----------|----------|----------|----------|
| Income (loss) before income tax expense (benefit)..... | 853 | (410) | 301 | (242) | (739) | 2,036 | (1,336) | 4,226 | 3,207 |
| Income tax expense (benefit)..... | 343 | (145) | 147 | (58) | (266) | 844 | (478) | 86 | 1,283 |
| Net income (loss)..... | \$ 510 | \$ (265) | \$ 154 | \$ (184) | \$ (473) | \$ 1,192 | \$ (858) | \$ 4,140 | \$ 1,924 |
| Pro forma net income per share..... | | | | | | \$ 0.12 | | | \$ 0.20 |
| Shares used in computing pro forma net income per share(4)..... | | | | | | 9,781 | | | 9,803 |

AS OF JUNE 30, 1996

ACTUAL PRO FORMA (5) AS ADJUSTED (6)
(IN THOUSANDS)

BALANCE SHEET DATA:

| | | | |
|---|--------|--------|----------|
| Cash..... | \$ 226 | \$ 226 | \$25,725 |
| Working capital (deficit)..... | 2,261 | (332) | 25,167 |
| Total assets..... | 5,653 | 5,653 | 31,152 |
| Obligations under capital lease, less current portion..... | 22 | 22 | 22 |
| Total stockholders' equity..... | 2,783 | 143 | 25,642 |

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- (1) The pro forma statement of operations data for the year ended December 31, 1995 have been computed by eliminating from selling, general and administrative expenses that portion of officer compensation that exceeded the compensation that would have been paid had the compensation plan adopted on July 1, 1996 been in effect for all of 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management--Executive Compensation."
 - (2) Effective January 1, 1996, the Company elected to be treated as an S-corporation. As an S-corporation, the Company was not subject to federal (and some state) income taxes. The pro forma statement of operations information for the six months ended June 30, 1996 has been computed by adjusting the Company's net income, as reported, to (a) increase selling, general and administrative expenses to reflect the amount by which the officer compensation that would have been paid under the compensation plan adopted July 1, 1996 exceeded officer compensation actually paid during the six months ended June 30, 1996, and (b) record income tax expense assuming an effective tax rate of 40% that would have been recorded had the Company been a C-corporation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Management--Executive Compensation" and Note 2 of Notes to Financial Statements.
 - (3) Selling, general and administrative expenses include salary and bonuses for the executive officers of the Company. Beginning July 1, 1996, these eight persons will be compensated pursuant to a compensation plan that provides for annual base and bonus compensation in the aggregate amount of \$3,193,750, assuming the Company meets the mid-point of the compensation plan's financial performance criteria. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management--Executive Compensation."
 - (4) Pro forma net income per share is based on the weighted average of 9,781,051 shares of common and common stock equivalent shares outstanding which includes 9,692,134 actual shares outstanding and 88,917 common stock equivalent shares outstanding during the year ended December 31, 1995. Pro forma net income per share is based on the weighted average of 9,803,202 shares of common and common stock equivalent shares outstanding which includes 9,714,285 actual shares outstanding and 88,917 common stock equivalent shares outstanding during the six months ended June 30, 1996. See Note 2 of Notes to Financial Statements.
 - (5) As adjusted to reflect the declaration of the S Corporation Dividend (as defined in "S Corporation Dividend"), which is estimated to be approximately \$2,540,000 as of June 30, 1996, and a \$100,000 charge to earnings to reinstate deferred income taxes upon termination of the Company's S-corporation status. See "S Corporation Dividend."
 - (6) Pro forma data, adjusted to give effect to: (i) the sale of 2,300,000

shares of Common Stock offered by the Company hereby and the application of the estimated net proceeds therefrom; and (ii) the Redemption as described in "Use of Proceeds." See "Use of Proceeds," "Capitalization" and "Certain Transactions."

RISK FACTORS

In addition to the other information set forth in this Prospectus, investors should consider carefully the following factors in connection with an investment in the shares of Common Stock offered hereby.

RELIANCE ON KEY EXECUTIVES

The success of the Company is highly dependent upon the efforts, abilities, business generation capabilities and project execution of certain of its executive officers and senior managers. The Company does not have an employment agreement with any of these executive officers and senior employees. The loss of the services of any of these key executives for any reason could have a material adverse effect upon the Company's business, operating results and financial condition, including its ability to secure and complete engagements. The Company maintains key-man life insurance policies on six of its executive officers in the approximate amount of \$1,500,000 each. See "Management."

ATTRACTION AND RETENTION OF EMPLOYEES

The Company's business involves the delivery of professional services and is labor-intensive. The Company's success depends in large part upon its ability to attract, develop, motivate and retain highly skilled consultants and senior consultants possessing business generation skills. Qualified consultants are in great demand and are likely to remain a limited resource for the foreseeable future. There can be no assurance that the Company will be able to attract and retain sufficient numbers of highly skilled consultants in the future. The loss of a significant number of consultants could have a material adverse effect on the Company's business, operating results and financial condition, including its ability to secure and complete engagements. See "Business--Human Resources."

CONCENTRATION OF REVENUES IN THE ELECTRIC UTILITY INDUSTRY

The Company currently derives the vast majority of its revenues from consulting engagements with electric utility companies. Much of the Company's recent growth has arisen from the business opportunities presented by the trend to deregulate the electric utility industry and introduce increased competition. If the current trend towards government deregulation of the electric utility industry slows or the industry becomes subject to more government regulation, the demand for consulting work from electric utilities is likely to decrease. If the United States experiences a shortage of electricity or a nuclear accident should occur, increased regulation of the electric utility industry would be likely, and the Company's business, operating results and financial condition could be materially and adversely affected. Moreover, as a result of deregulation, the electric utility industry is in a period of consolidation, which could have the effect of reducing the number of the Company's current or potential clients or create conflicts of interest between its clients. To date, the Company has lost one client from a conflict of interest attributable to this industry consolidation trend. Although this client loss did not have a material effect on the Company's business, additional conflicts may develop, preventing the Company from representing certain clients and potentially causing a material adverse effect on the Company's business, operating results and financial condition. Furthermore, the number of potential clients in the electric utility industry may decrease. Additionally, current and future economic pressures may limit spending by utilities for the types of services offered by the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Because of the nature and scope of many of the Company's projects, the Company derives a significant portion of its revenues from a relatively limited number of clients that operate exclusively in the electric utility industry. For example, during 1995 and the first half of 1996, revenues from the Company's ten most significant clients accounted for approximately 80.5%

and 76.3% of its revenues, respectively. In 1995, a group of affiliated clients and the Company's largest single client accounted for approximately 22.6% and 15.5% of the Company's revenues, respectively. There can be no assurance that these clients will continue to engage the Company for additional significant projects. Clients engage the Company on an assignment-by-assignment basis, and a client

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can generally terminate an assignment at any time without penalty. The loss of any significant client could have a material adverse effect on the Company's business, operating results and financial condition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Clients and Representative Services."

MANAGEMENT OF GROWTH

The Company is currently experiencing rapid growth that has strained, and could continue to strain, the Company's managerial and other resources. The Company's ability to manage the growth of its operations will require it to continue to improve its operational, financial and other internal systems and to attract, develop, motivate and retain its employees. If the Company's management is unable to manage growth or new employees are unable to achieve anticipated performance or utilization levels, the Company's business, operating results and financial condition could be materially and adversely affected.

PROJECT RISKS

Many of the Company's engagements involve projects that are critical to the operations of its clients' utilities businesses and provide benefits that may be difficult to quantify. The Company's failure or inability to meet a client's expectations in the performance of its services could have a material adverse effect on the Company's reputation, thereby adversely affecting its business, operating results and financial condition.

VARIABILITY OF QUARTERLY OPERATING RESULTS; SEASONALITY

Variations in the Company's revenues and operating results occur from quarter to quarter as a result of a number of factors, such as the significance of client engagements commenced and completed during a quarter, the number of business days in a quarter, employee hiring and utilization rates, the length of the Company's sales cycle, the ability of clients to terminate engagements without penalty, the size and scope of assignments and general economic conditions. Because a significant portion of the Company's expenses are relatively fixed, a variation in the number of client assignments or the timing of the initiation or the completion of client assignments can cause significant variations in operating results from quarter to quarter and could result in losses to the Company. To the extent that increases in the number of professional personnel are not followed by corresponding increases in revenues, the Company's operating results could be materially and adversely affected. Furthermore, the Company has on occasion experienced a seasonal pattern in its operating results, with a smaller proportion of the Company's revenues and lower operating income occurring in the fourth quarter of the year or a smaller sequential growth rate than in other quarters. The Company believes these results can be attributed to constraints on the annual budgets of electric utilities, and vacation and holidays taken by both its clients and consultants. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Unaudited Quarterly Results."

INTENSE COMPETITION

The market for consulting services to electric utilities is intensely competitive, highly fragmented and subject to rapid change. The market includes a large number of participants from a variety of market segments, including general management consulting firms, the consulting practices of "Big Six" accounting firms and local or regional firms specializing in utility services. Many information technology consulting firms also maintain significant practice groups devoted to the utility industry. Many of these companies are national and international in scope and have greater personnel, financial, technical and marketing resources than the Company. There can be no assurance that the Company will compete successfully with its existing competitors or with any new competitors. See "Business--Competition."

RISKS RELATED TO POSSIBLE ACQUISITIONS

The Company may expand its operations through the acquisition of additional businesses. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses into the Company without substantial expenses, delays or other operational or financial problems. Further, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company's business, operating results and financial condition. Client satisfaction or performance problems at a single acquired firm could have a material adverse impact on the reputation of the Company as a whole. In addition, there can be no assurance that acquired businesses, if any, will achieve anticipated revenues and earnings. The failure of the Company to manage its acquisition strategy successfully could have a material adverse effect on the Company's business, operating results and financial condition. See "Business--Growth Strategy."

SIGNIFICANT UNALLOCATED NET PROCEEDS

A substantial majority of the anticipated net proceeds of this offering has not been designated for specific uses. Therefore, the Board of Directors of the Company will have broad discretion with respect to the use of the net proceeds of this offering. See "Use of Proceeds."

BENEFITS OF OFFERING TO SELLING STOCKHOLDERS

The Selling Stockholders will receive substantial proceeds from this offering and certain other benefits in connection with the offering. The offering will establish a public market for the Common Stock and provide significantly increased liquidity to the Selling Stockholders for the shares of Common Stock they will own after the offering. At an initial public offering price of \$16.00 per share, after deduction of underwriting discounts and commissions, the aggregate realized gain as a result of the offering by the Selling Stockholders will be approximately \$17.7 million (exclusive of the S Corporation Dividend from the Company to the Selling Stockholders). Upon completion of the offering, the Selling Stockholders will own an aggregate of 66% of the outstanding Common Stock. At \$16.00 per share, the Selling Stockholders' aggregate unrealized gain (before deduction of estimated income taxes) would be approximately \$104.8 million. See "Use of Proceeds," "Dilution," "Principal and Selling Stockholders" and "Certain Transactions."

In addition, Richard J. Metzler, the founder of the Company, was granted a look-back option to purchase certain shares of Common Stock from the Selling Stockholders that became exercisable as a result of this offering. Accordingly, Mr. Metzler exercised his option to purchase 1,457,143 shares from the remaining Selling Stockholders for total consideration of \$1.00. The Company will use proceeds from this offering in the amount of \$7,975,000 to redeem all of these shares and an additional 257,142 shares of Common Stock owned by Mr. Metzler (for a price of approximately \$4.65 per share).

CONTROL BY PRINCIPAL STOCKHOLDERS

After completion of this offering, the Company's executive officers will beneficially own 66% of the Company's outstanding shares of Common Stock. As a result, these officers will continue to be able to control the outcome of matters requiring a stockholder vote, including the election of the members of the Board of Directors, thereby controlling the affairs and management of the Company. Such control could adversely affect the market price of the Common Stock or delay or prevent a change in control of the Company. See "Principal and Selling Stockholders."

NO PRIOR PUBLIC MARKET; POSSIBLE VOLATILITY OF STOCK PRICE

Prior to this offering, there has been no public market for the Common Stock. Consequently, the initial public offering price per share of the Common Stock was determined by negotiations among management of the Company and the

representative of the Underwriters (the "Representative"). See "Underwriting" for factors considered in determining the initial public offering price per share. Although the Common Stock has been approved for quotation on the Nasdaq National Market, there can be no assurance that an active trading market will develop or be sustained after this offering. The market price of the Common Stock may fluctuate substantially due to a variety of factors, including quarterly fluctuations in results of operations, adverse circumstances affecting the introduction or market acceptance of new services offered by the Company, announcements of new services by competitors, changes in earnings estimates by analysts, changes in accounting principles, sales of Common Stock by existing holders, loss of key personnel and other factors. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has often had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. Any such litigation instigated against the Company could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on the Company's business, operating results and financial condition.

IMMEDIATE AND SUBSTANTIAL DILUTION

The initial public offering price per share of Common Stock is substantially higher than the net tangible book value per share of the Common Stock. Purchasers of shares of Common Stock in this offering will experience immediate and substantial dilution of \$13.51 in the pro forma net tangible book value per share of Common Stock. To the extent outstanding options to purchase the Company's Common Stock are exercised, there will be further dilution. See "Dilution."

DIVIDEND POLICY

Other than the S Corporation Dividend (see "S Corporation Dividend"), the Company has never paid cash dividends on its capital stock and does not anticipate paying cash dividends in the foreseeable future. The Company currently intends to retain all earnings for the development of its business. See "Dividend Policy."

CERTAIN ANTITAKEOVER EFFECTS

The Company's Certificate of Incorporation and By-Laws and the Delaware General Corporation Law include provisions that may be deemed to have antitakeover effects and may delay, defer or prevent a takeover attempt that stockholders might consider in their best interests. Directors of the Company are divided into three classes and are elected to serve staggered three-year terms. The Board of Directors of the Company is authorized to issue up to 3,000,000 shares of preferred stock and to determine the price, rights, preferences and privileges of such shares, without any further stockholder action. The existence of this "blank-check" preferred stock could render more difficult or discourage an attempt to obtain control of the Company by means of a tender offer, merger, proxy contest or otherwise. In addition, the existence or issuance of "blank check" preferred stock may have an adverse effect on the market price of the Company's Common Stock. See "Management--Executive Officers and Directors" and "Description of Capital Stock--Antitakeover Effects of Provisions of the Certificate of Incorporation, By-Laws and Delaware Law."

SHARES ELIGIBLE FOR FUTURE SALE

Immediately after completion of this offering, the Company will have 10,300,000 shares of Common Stock outstanding, of which the 3,500,000 shares sold pursuant to this offering will be freely tradable without restriction or further registration under the Securities Act of 1933, as amended (the "Securities Act"), except those shares acquired by affiliates of the Company. Holders of the remaining shares will be eligible to sell such shares pursuant to Rule 144 under the Securities Act ("Rule 144") at prescribed times and subject to the manner of sale, volume, notice and information restrictions of Rule 144. In addition, 355,666 shares of Common Stock (none of which are currently exercisable) are issuable upon the exercise of outstanding stock options, which shares may be registered by the Company under the Securities

Act and become freely tradable without restriction. The Company, together with each of its stockholders (holding in the aggregate 6,800,000 shares of Common Stock upon consummation of this offering), have agreed not to offer, sell, contract to sell or otherwise dispose of, directly or indirectly, any Common Stock, or any securities convertible into or exchangeable or exercisable for Common Stock, until 180 days after the date of this Prospectus, without the prior consent of Donaldson, Lufkin & Jenrette Securities Corporation. Sales of substantial amounts of such shares in the public market or the availability of such shares for future sale could adversely affect the market price of the shares of Common Stock and the Company's ability to raise additional capital at a price favorable to the Company. See "Shares Eligible for Future Sale" and "Underwriting."

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THE COMPANY

From its inception in 1983 to immediately prior to the date of this Prospectus, the Company has operated as an Illinois corporation, most recently under the name Metzler & Associates, Inc. ("Metzler-Illinois"). In December 1995, Richard J. Metzler, the founder of the Company and the owner of 85% of its capital stock at that time, sold 60% of the Company's outstanding capital stock to the other then-existing shareholders. These existing shareholders, who are also senior officers of the Company, each own between 10% to 15% of the Company's Common Stock as of the date of this Prospectus. See "Certain Transactions" and "Principal and Selling Stockholders." Effective as of the date of this Prospectus, the Company will restructure itself in a merger (the "Reorganization"), pursuant to which Metzler-Illinois will become a wholly owned operating subsidiary of the registrant, The Metzler Group, Inc., a newly formed Delaware corporation, and the current shareholders of Metzler-Illinois will exchange all of their shares of common stock of Metzler-Illinois for a like number of shares of Common Stock of The Metzler Group, Inc.

The Company maintains its principal executive offices at 520 Lake Cook Road, Suite 500, Deerfield, Illinois 60015. The Company's telephone number is (847) 945-0001.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 2,300,000 shares of Common Stock offered by the Company hereby, after deducting underwriting discounts and commissions and other offering expenses (estimated to be approximately \$750,000), all of which are payable by the Company, are estimated to be approximately \$33.5 million (\$37.7 million if the Underwriters' over-allotment option is exercised in full). The Company will use a portion of the net proceeds to repay indebtedness of \$7,975,000 (which bears no interest and is payable within 30 days of the closing of this offering) owed to the Company's founder, Richard J. Metzler, in connection with a redemption of a portion of the Company's Common Stock from Mr. Metzler (the "Redemption"). See "Certain Transactions." The balance of the net proceeds will be used for general corporate purposes, which may include future acquisitions of complementary businesses. The Company currently has no agreements, understandings or commitments regarding any future acquisitions. Pending such uses, the net proceeds will be invested in short-term, interest-bearing investment grade securities.

The principal purposes of this offering are to increase the Company's equity capital and financial flexibility, create a public market for the Common Stock, facilitate future access by the Company to the public equity markets, create a currency for potential acquisitions, enhance the Company's ability to use the Common Stock as a means of attracting, retaining and incentivizing senior managers and consultants and provide working capital to fund the Company's growth strategy. See "Business--Growth Strategy."

S CORPORATION DIVIDEND

Commencing on January 1, 1996, the Company elected to be treated as an S-corporation for federal income tax purposes under Subchapter S of the Internal Revenue Code of 1986, as amended, and for certain state income tax purposes. As a result, substantially all of the Company's 1996 income through the date of this Prospectus will be taxed directly to its stockholders rather than to the Company. The Company's S-corporation status will terminate in connection with the offering and the Company will make a final distribution to its existing stockholders of undistributed S-corporation earnings, as explained

below.

Prior to consummating this offering, the Company will declare an S-corporation dividend to its existing stockholders in an aggregate amount representing all undistributed earnings of the Company from January 1, 1996 through the date of this Prospectus (the "S Corporation Dividend"). The S Corporation Dividend, which does not include \$1,600,000 of Company earnings distributed in the first six months of 1996, is currently estimated to be approximately \$4,000,000, and 40% of such amount will be paid upon the closing of this offering from the Company's cash on hand at that time in order to fund the existing stockholders' estimated tax payments. The remainder of the S Corporation Dividend will be paid to the existing stockholders on December 15, 1996. Purchasers of Common Stock in this offering will not receive any portion of the S Corporation Dividend. Following termination of its S-corporation status upon the Reorganization, the Company will be subject to corporate income taxation as a Subchapter C corporation.

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DIVIDEND POLICY

The Company currently anticipates that it will retain all of its earnings for development of the Company's business, and does not anticipate paying any cash dividends in the foreseeable future. Future cash dividends, if any, will be at the discretion of the Company's Board of Directors and will depend upon, among other things, the Company's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the Board of Directors may deem relevant.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of June 30, 1996, and as adjusted to reflect: (i) the Redemption; (ii) the declaration of the S Corporation Dividend (estimated through June 30, 1996); (iii) the reinstatement of deferred income taxes upon termination of the Company's S-corporation status; and (iv) the sale of 2,300,000 shares of Common Stock offered by the Company and the application of the estimated net proceeds therefrom as described in "Use of Proceeds." The following table should be read in conjunction with the Financial Statements and related Notes thereto included elsewhere in this Prospectus.

| | AS OF JUNE 30, 1996 | |
|---|------------------------|--------------------------|
| | ACTUAL | PRO FORMA AS ADJUSTED |
| | (IN THOUSANDS) | |
| Current portion of obligations under capital lease..... | \$ 16 | \$ 16 |
| Obligations under capital lease, less current maturities.... | \$ 22 | \$ 22 |
| Stockholders' equity: | | |
| Preferred Stock, \$.001 par value; 3,000,000 shares authorized; no shares issued or outstanding..... | -- | -- |
| Common Stock, \$.001 par value; 15,000,000 shares authorized; 9,714,285 shares issued and outstanding, 10,300,000 shares issued and outstanding as adjusted (1)..... | 10 | 10 |
| Additional paid-in capital (2)..... | 107 | 25,606 |
| Retained earnings (3)..... | 2,666 | 26 |
| Total stockholders' equity..... | 2,783 | 25,642 |
| Total capitalization..... | \$2,805 | \$25,664 |

(1) Excludes 355,666 shares of Common Stock issuable upon the exercise of stock options outstanding as of June 30, 1996 at an exercise price of \$12.00 per share, and 944,334 shares of Common Stock reserved for grant of future options or direct issuances under the Company's Long-Term Incentive

Plan. See "Management--Long-Term Incentive Plan."

- (2) As adjusted to reflect the sale of 2,300,000 shares of Common Stock offered by the Company, net of underwriting discounts and commissions and estimated offering expenses, less \$7,975,000 paid to the founder of the Company in connection with the Redemption.
- (3) As adjusted to reflect the declaration of the S Corporation Dividend (which is estimated to be approximately \$2,540,000 as of June 30, 1996) and a \$100,000 charge to earnings to reinstate deferred income taxes upon termination of the Company's S-corporation status. See "S Corporation Dividend."

DILUTION

As of June 30, 1996, the net tangible book value of the Company was \$2,783,000 or \$0.29 per share. Net tangible book value per share represents the amount of tangible net assets of the Company, less total liabilities, divided by the number of shares of Common Stock outstanding. After giving effect to: (i) the Redemption as described in "Use of Proceeds"; (ii) the declaration of the S Corporation Dividend (estimated through June 30, 1996) as described in "S Corporation Dividend"; (iii) the reinstatement of deferred income taxes upon termination of the Company's S-corporation status; and (iv) the sale by the Company of 2,300,000 shares of Common Stock and the application of the net proceeds therefrom, the pro forma net tangible adjusted book value of the Company at June 30, 1996 would have been \$25,642,000 or \$2.49 per share. This amount represents an immediate increase in net tangible book value of \$2.20 per share to existing owners of the Company and an immediate dilution in net tangible book value per share of \$13.51 per share to purchasers of Common Stock in this offering. The following table illustrates this per share dilution, without giving effect to any exercise of the Underwriters' over-allotment options:

| | |
|--|----------|
| Initial public offering price per share..... | \$ 16.00 |
| Net tangible book value per share at June 30, 1996..... | \$0.29 |
| Increase in net tangible book value per share attributable to new investors..... | 2.20 |
| Pro forma net tangible book value per share after this offering.. | 2.49 |
| | ----- |
| Dilution in net tangible book value per share to new investors... | \$ 13.51 |
| | ===== |

As of June 30, 1996, there were options outstanding to purchase a total of 355,666 shares of Common Stock at an exercise price of \$12.00 per share. To the extent outstanding options are exercised, there will be further dilution to investors.

The following table summarizes, on a pro forma basis as of June 30, 1996, the differences in the number of shares of capital stock purchased from the Company, the total consideration paid and the average price paid per share by existing shareholders and new investors:

| | SHARES PURCHASED | | TOTAL CONSIDERATION | | AVERAGE PRICE PER SHARE |
|-----------------------------|------------------|---------|---------------------|---------|-------------------------|
| | NUMBER | PERCENT | AMOUNT | PERCENT | |
| Existing stockholders(1)... | 8,000,000 | 77.7% | \$ 117,396 | 0.3% | \$ 0.01 |
| New investors(1)..... | 2,300,000 | 22.3 | 36,800,000 | 99.7 | \$16.00 |
| | ----- | ----- | ----- | ----- | |
| Total..... | 10,300,000 | 100.0% | \$36,917,396 | 100.0% | |
| | ===== | ===== | ===== | ===== | |

- (1) Sales by the Selling Stockholders in this offering will reduce the number of shares held by existing stockholders of the Company to 6,800,000 or 66.0% of the total number of shares outstanding after this offering (6,560,000 shares or 62.0% if the Underwriters' over-allotment option is exercised in full), and will increase the number of shares held by new

investors to 3,500,000 shares or 34.0% of the total number of shares of Common Stock outstanding after this offering (4,025,000 shares or 38.0% if the Underwriters' over-allotment option is exercised in full). See "Principal and Selling Stockholders."

SELECTED FINANCIAL DATA

The following selected financial data for the fiscal years ended 1991 through 1995 are derived from the Company's Financial Statements and related Notes thereto. The Company's Financial Statements and related Notes thereto as of December 31, 1994 and 1995 and for the three years ended December 31, 1995 have been audited by KPMG Peat Marwick LLP, independent accountants. The statements of operations and the balance sheet data as set forth below for the years ended December 31, 1991 and 1992 and each of the six-month periods ended June 30, 1995 and 1996 and as of December 31, 1991, 1992 and 1993, and June 30, 1995 and June 30, 1996 and the pro forma statements of operations for the year ended December 31, 1995 and the six months ended June 30, 1996 have been derived from the Company's financial statements. In the opinion of management, the interim period financial statements include all adjustments necessary for a fair statement of the results for the interim periods, and all such adjustments are of a normal recurring nature. The selected financial data for the six months ended June 30, 1996 are not necessarily indicative of the results to be expected for the full year. The selected financial data set forth below should be read in conjunction with the Company's Financial Statements and related Notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

| | YEARS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, | | | | |
|--|---------------------------------------|----------|----------|----------|----------|---------------------------|----------|----------|-------------------------|--|
| | 1991 | 1992 | 1993 | 1994 | 1995 | PRO FORMA 1995(1) | 1995 | 1996 | PRO FORMA 1996(2) | |
| | (IN THOUSANDS, EXCEPT PER SHARE DATA) | | | | | | | | | |
| STATEMENT OF OPERATIONS DATA: | | | | | | | | | | |
| Revenues..... | \$12,786 | \$9,216 | \$10,380 | \$10,420 | \$13,460 | \$13,460 | \$5,626 | \$10,857 | \$10,857 | |
| Cost of services..... | 6,615 | 5,644 | 5,797 | 5,263 | 6,422 | 6,422 | 2,841 | 5,215 | 5,215 | |
| Gross profit..... | 6,171 | 3,572 | 4,583 | 5,157 | 7,038 | 7,038 | 2,785 | 5,642 | 5,642 | |
| Selling, general and administrative expenses(3)..... | 5,387 | 4,006 | 4,267 | 5,327 | 7,650 | 4,875 | 4,023 | 1,404 | 2,423 | |
| Operating income (loss)..... | 784 | (434) | 316 | (170) | (612) | 2,163 | (1,238) | 4,238 | 3,219 | |
| Other expense (income), net..... | (69) | (24) | 15 | 72 | 127 | 127 | 98 | 12 | 12 | |
| Income (loss) before income tax expense (benefit)..... | 853 | (410) | 301 | (242) | (739) | 2,036 | (1,336) | 4,226 | 3,207 | |
| Income tax expense (benefit)..... | 343 | (145) | 147 | (58) | (266) | 844 | (478) | 86 | 1,283 | |
| Net income (loss)..... | \$ 510 | \$ (265) | \$ 154 | \$ (184) | \$ (473) | \$ 1,192 | \$ (858) | \$ 4,140 | \$ 1,924 | |
| Pro forma net income per share(4)..... | | | | | | \$ 0.12 | | | \$ 0.20 | |

| | AS OF DECEMBER 31, | | | | | AS OF JUNE 30, | | |
|--|--------------------|------|------|------|------|----------------|------|-------------------------|
| | 1991 | 1992 | 1993 | 1994 | 1995 | 1995 | 1996 | PRO FORMA 1996(5) |
| | (IN THOUSANDS) | | | | | | | |

BALANCE SHEET DATA:

| | | | | | | | | |
|--|-------|-------|-------|-------|--------|--------|--------|--------|
| Cash..... | \$ 20 | \$ 2 | \$ 3 | \$ 64 | \$ 223 | \$ 573 | \$ 226 | \$ 226 |
| Working capital | | | | | | | | |
| (deficit)..... | 848 | 85 | 348 | 310 | 49 | (392) | 2,261 | (332) |
| Total assets..... | 1,996 | 2,697 | 3,459 | 2,518 | 2,780 | 3,951 | 5,653 | 5,653 |
| Obligations under capital lease, less current portion..... | 17 | -- | 60 | 46 | 30 | 38 | 22 | 22 |
| Total stockholders' equity (deficit)..... | 1,016 | 752 | 860 | 655 | 243 | (141) | 2,783 | 143 |

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- (1) The pro forma statement of operations data for the year ended December 31, 1995 have been computed by eliminating from selling, general and administrative expenses that portion of officer compensation that exceeded the compensation that would have been paid had the compensation plan adopted on July 1, 1996 been in effect for all of 1995. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management--Executive Compensation."
 - (2) Effective January 1, 1996, the Company elected to be treated as an S-corporation. As an S-corporation, the Company was not subject to federal (and some state) income taxes. The pro forma statement of operations information for the six months ended June 30, 1996 has been computed by adjusting the Company's net income, as reported, to (a) increase selling, general and administrative expenses to reflect the amount by which the officer compensation that would have been paid under the compensation plan adopted July 1, 1996 exceeded officer compensation actually paid during the six months ended June 30, 1996, and (b) record income tax expense assuming an effective tax rate of 40% that would have been recorded had the Company been a C-corporation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Management--Executive Compensation" and Note 2 of Notes to Financial Statements.
 - (3) Selling, general and administrative expenses include salary and bonuses for the executive officers of the Company. Beginning July 1, 1996, these eight persons will be compensated pursuant to a compensation plan that provides for annual base and bonus compensation in the aggregate amount of \$3,193,750, assuming the Company meets the mid-point of the compensation plan's financial performance criteria. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Management--Executive Compensation."
 - (4) Pro forma net income per share is based on the weighted average of 9,781,051 shares of common and common stock equivalent shares outstanding which includes 9,692,134 actual shares outstanding and 88,917 common stock equivalent shares outstanding during the year ended December 31, 1995. Pro forma net income per share is based on the weighted average of 9,803,202 shares of common and common stock equivalent shares outstanding which includes 9,714,285 actual shares outstanding and 88,917 common stock equivalent shares outstanding during the six months ended June 30, 1996. See Note 2 of Notes to Financial Statements.
 - (5) As adjusted to reflect the declaration of the S Corporation Dividend (which is estimated to be approximately \$2,540,000 as of June 30, 1996) and a \$100,000 charge to earnings to reinstate deferred income taxes upon termination of the Company's S-corporation status. See "S Corporation Dividend."

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following section of the Prospectus, Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain forward-looking statements that involve substantial risks and uncertainties. When used in this section, the words "anticipate," "believe," "estimate," and "expect" and similar expressions as they relate to the Company or its management are intended to identify such forward-looking statements. The Company's actual results, performance or achievements could differ materially from the results expressed in, or implied by, these forward-looking statements. Factors that could cause or contribute to such differences include those discussed in "Risk Factors."

OVERVIEW

The Metzler Group, Inc. is a leading nationwide provider of consulting

services to electric utilities and other energy-related businesses. The Company offers a wide range of consulting services related to information technology, process/operations management, strategy, and marketing and sales designed to assist its clients in succeeding in a business environment of changing regulation, increasing competition and evolving technology.

The Company derives substantially all of its revenues from fees for professional services, which are billed at standard daily rates or provided on a fixed-bid basis. Over the last three years, the substantial majority of the Company's revenues has been generated under standard daily rates billed on a time and expenses basis. Clients are typically invoiced on a monthly basis with revenue recognized as the services are provided. Fixed-bid revenue is recognized by the percentage of completion method based on the ratio of costs incurred to total estimated project costs. Although fixed-bid projects subject the Company to the risk of cost overruns, the Company has not incurred a loss on a fixed-bid contract during the last three years.

The Company's most significant expenses are project personnel costs, which consist of consultant salaries and benefits, and travel-related direct project expenses. Project personnel are typically full-time professionals employed by the Company, although the Company supplements its project professional personnel through the use of independent contractors. The Company retains contractors for specific client engagements on a task-specific, per diem basis during the period their expertise or skills are required. The Company believes that retaining contractors on a per-engagement basis provides it with greater flexibility in adjusting professional personnel levels in response to changes in demand for its services.

Effective January 1, 1996, the Company elected to be taxed as an S-corporation. As an S-corporation, the net income of the Company from January 1, 1996 is taxable for federal (and some state) income tax purposes directly to the Company's stockholders. The Company's compensation structure for its executive officers for the periods presented reflected the Company's then tax status. For all periods prior to January 1, 1996, when the Company was taxable as a C-corporation, incentive compensation to the Company's key executives represented a significant percentage of the Company's revenues. For the period commencing January 1, 1996, until the termination of the Company's S-corporation status upon consummation of the Reorganization, the Company's key executives will not earn any incentive compensation as it is not a component of the compensation plan in effect at that time. As an S-corporation, all the Company's net income during the period it is taxable as an S-corporation will be distributed to its key executives and included in their personal taxable income. Effective July 1, 1996, in contemplation of the termination of the Company's S-corporation status and its going public as a result of this offering, the Company adopted a new executive officer compensation plan that provides for annual base salaries ranging from \$225,000 to \$375,000 and bonus compensation subject to the attainment of certain financial performance criteria, ranging from 0% to 125% of each executive officer's annual base salary. See "S Corporation Dividend" and "Management--Executive Compensation."

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected statements of operations data as a percentage of revenues:

| | YEARS ENDED | | | SIX MONTHS ENDED | |
|---|--------------|------|------|------------------|------|
| | DECEMBER 31, | | | JUNE 30, | |
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| Revenues..... | 100% | 100% | 100% | 100% | 100% |
| Cost of services..... | 56 | 51 | 48 | 50 | 48 |
| Gross profit..... | 44 | 49 | 52 | 50 | 52 |
| Selling, general and administrative expenses..... | 41 | 51 | 57 | 72 | 13 |
| Operating income (loss)..... | 3 | (2) | (5) | (22) | 39 |

| | | | | | |
|---|-----|------|------|-------|-----|
| Other expense (income), net..... | * | 1 | 1 | 2 | * |
| | --- | --- | --- | --- | --- |
| Income (loss) before income tax expense (benefit).. | 3 | (3) | (6) | (24) | 39 |
| Income tax expense (benefit)..... | 1 | (1) | (2) | (9) | 1 |
| | --- | --- | --- | --- | --- |
| Net income (loss)..... | 2% | (2)% | (4)% | (15)% | 38% |
| | === | === | === | === | === |

- -----
*Less than one percent.

SIX MONTHS ENDED JUNE 30, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

Revenues. Revenues increased 93% to \$10.9 million in the six months ended June 30, 1996 from \$5.6 million in the six months ended June 30, 1995. This increase was caused by increased demand for management consulting services in the electric utility industry and a change in the Company's management compensation structure that places more emphasis on the generation of new client engagements. These factors generated increases in both the number of client projects and the average size of client projects.

Gross Profit. Gross profit consists of revenues less cost of services, which includes consultant salaries, benefits and travel-related direct project expenses. Gross profit increased 103% to \$5.6 million in the first half of 1996 from \$2.8 million in the comparable period of 1995. Gross profit as a percentage of revenues was 52% in 1996 compared to 50% in 1995. To service additional client project commitments, the Company increased its full-time equivalent consultants, including independent subcontractors, to 43 professionals in the first six months of 1996 from approximately 30 in the comparable period in 1995. Increased utilization rates resulted in a 10% increase in average billings per professional in the 1996 period.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include salaries and benefits of management and support personnel, facilities costs, training, direct selling, outside professional fees and all other corporate costs. Selling, general and administrative expenses decreased 65% to \$1.4 million in the six month period ended June 30, 1996 from \$4.0 million in the prior year period. As a percentage of revenues, selling, general and administrative expenses decreased to 13% in the first six months of 1996 from 72% in the first six months of 1995. The decrease is attributable to the change in the taxable status of the Company from a C-corporation to an S-corporation, with the Company's profits being distributed to its principal executives commencing January 1, 1996. Pursuant to the compensation plan in effect, the Company's key executives did not earn any incentive compensation in the first six months of 1996. Excluding the \$3.1 million of incentive compensation recorded with respect to the Company's key executives in 1995, the remaining selling, general and administrative expenses were 13% and 16% of revenues in the first six months of 1996 and 1995, respectively. Effective July 1, 1996, in contemplation of the termination of the Company's S-corporation status in connection with the closing of this offering, the Company adopted a new executive compensation plan. See "Management--Executive Compensation." Although selling, general and administrative expenses generally

increase as the Company's revenues increase, the Company believes it can leverage its existing overhead structure to lower selling, general and administrative expenses as a percentage of revenues in the future.

Operating Income (Loss). Operating income for the six months ended June 30, 1996 was \$4.2 million, as opposed to an operating loss for the six months ended June 30, 1995 of \$1.2 million. The improvement is attributable to the increased revenues and the decrease in selling, general and administrative expenses resulting from the change in compensation for the Company's key executives, as described above.

Income Taxes. Effective January 1, 1996, the stockholders of the Company elected to be taxed under Subchapter S of the Internal Revenue Code. See "S Corporation Dividend." Federal income taxes are the responsibility of the Company's stockholders, as are certain state income taxes. Accordingly, the statement of operations for the six months ended June 30, 1996 does not include a provision for federal or certain state income taxes. The Company's S-corporation status will terminate upon the consummation of this offering.

PRO FORMA RESULTS

The pro forma statement of operations data reflect an adjustment to selling, general and administrative expenses for executive officer compensation for the year ended December 31, 1995 to eliminate the excess of key executive compensation paid in 1995 over the compensation estimated that would have been paid under the newly adopted executive officer compensation plan as if such plan were in place throughout 1995. The estimated amount payable under the new plan was calculated by assuming the payment to the executive officers of their annual base salaries plus a 75% bonus level (payable upon attainment of the mid-point of the compensation plan's financial performance criteria). The pro forma adjustment for officer compensation expenses for the six months ended June 30, 1996 adds back the excess of compensation estimated to be payable under the newly adopted plan over the limited base salaries actually paid in 1996 in light of the Company's S-corporation tax structure.

The pro forma tax provision provided for the six months ended June 30, 1996 assumes the Company had been operating as a C-corporation during such period and reflects an effective tax rate of 40% after giving effect to the aforementioned executive officer compensation expense adjustments.

1995 COMPARED TO 1994

Revenues. Revenues increased 29% to \$13.5 million in 1995 from \$10.4 million in 1994. The increase in revenues was attributable to a 10% increase in the Company's standard daily rates, an increase in the number of client projects and an increase in the average size of client projects. The rate increase was applicable to new client engagements that commenced after the third quarter of 1994, but the full effect was not evident until 1995 because of the high level of work in process for the fourth quarter of 1994.

Gross Profit. Gross profit increased 36% to \$7.0 million in 1995 from \$5.2 million in 1994. Gross profit as a percentage of revenues increased to 52% in 1995 from 49% in 1994. This increase is attributable to improvements in the utilization rates for professional personnel and reduced reliance on independent subcontractors in 1995. Full-time equivalent consultants, including subcontractors, increased to 35 professionals in 1995 from 31 in 1994, to accommodate the increased number and size of client projects. Increased utilization, in addition to the impact of the consultant billing rate increase, improved average billings per professional in 1995 by 14% over 1994's levels.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 44% to \$7.7 million in 1995 from \$5.3 million in 1994. This increase is attributable to higher 1995 compensation for the Company's principal executive officers. The Company's 1995 executive incentive plan provided for compensation payments that were largely commensurate with increased gross profits generated from incremental revenues. Selling, general and administrative expenses, as a percentage of revenues, increased to 57% in 1995 from 51% in 1994. Excluding the incentive compensation expense for key executives, the remaining selling, general and administrative expenses were 11% and 13% of revenues in 1995 and 1994, respectively.

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Operating Income (Loss). The operating loss increased to \$0.6 million in 1995 from \$0.2 million in 1994. The higher operating loss in 1995 was driven by increased compensation for the Company's principal executive officers, mitigated to some degree by improved gross margins.

1994 COMPARED TO 1993

Revenues. Revenues for both 1994 and 1993 were approximately \$10.4 million. Revenues increased by less than 1%, as the number of client projects and the average project size were largely consistent from year to year. The Company increased its standard daily rates in the third quarter of 1994, but the increase did not have a material effect on 1994 results because it was effective only for new client engagements commencing after the effective date.

Gross Profit. Gross profit increased 13% to \$5.2 million in 1994 from \$4.6 million in 1993. Gross profit as a percentage of revenues increased to 49% in

1994 from 44% in 1993. This increase was a result of higher utilization of professional personnel. Full-time equivalent consultants, including subcontractors, decreased to 31 professionals in 1994 from 35 in 1993. The improved utilization and a modest increase in the average size of client projects improved average billings per professional for 1994 by 13% over 1993's levels.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased 25% to \$5.3 million in 1994 from \$4.3 million in 1993. The increase is attributable to higher 1994 compensation for the Company's principal executive officers. The Company's 1994 executive incentive plan provided for compensation payments that were largely commensurate with increased gross profits generated from productivity improvements. As a percentage of revenues, selling, general and administrative expenses increased to 51% in 1994 from 41% in 1993. Excluding the incentive compensation expense for key executives, the remaining selling, general and administrative expenses were 13% and 14% of revenues in 1994 and 1993, respectively.

Operating Income (Loss). The Company generated an operating loss of \$0.2 million in 1994, as compared to operating income of \$0.3 million in 1993. This change was the result of increased compensation for the Company's principal executive officers, offset to some degree by improvements in gross margins.

UNAUDITED QUARTERLY RESULTS

The following table sets forth certain unaudited quarterly operating information for each of the eight quarters ending June 30, 1996. These data have been prepared on the same basis as the audited financial statements contained elsewhere in this Prospectus and include all normal recurring adjustments necessary for the fair presentation of the information for the periods presented, when read in conjunction with the Company's Financial Statements and related Notes thereto. Results for any previous fiscal quarter are not necessarily indicative of results for the full year or for any future quarter.

| | QUARTERS ENDED | | | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | SEP. 30, 1994 | DEC. 31, 1994 | MAR. 31, 1995 | JUNE 30, 1995 | SEP. 30, 1995 | DEC. 31, 1995 | MAR. 31, 1996 | JUNE 30, 1996 |
| | (IN THOUSANDS) | | | | | | | |
| Revenues..... | \$2,569 | \$2,191 | \$2,526 | \$3,100 | \$3,692 | \$4,142 | \$5,344 | \$5,513 |
| Cost of services..... | 1,185 | 1,205 | 1,294 | 1,547 | 1,645 | 1,936 | 2,546 | 2,669 |
| Gross profit..... | 1,384 | 986 | 1,232 | 1,553 | 2,047 | 2,206 | 2,798 | 2,844 |
| Selling, general and administrative expenses..... | 1,460 | 1,063 | 1,986 | 2,037 | 1,942 | 1,685 | 709 | 695 |
| Operating income (loss). | (76) | (77) | (754) | (484) | 105 | 521 | 2,089 | 2,149 |
| Other expense (income), net..... | 78 | (38) | 78 | 20 | 1 | 28 | 13 | (1) |
| Income (loss) before income tax expense (benefit)..... | (154) | (39) | (832) | (504) | 104 | 493 | 2,076 | 2,150 |
| Income tax expense (benefit)..... | (37) | (10) | (298) | (180) | 37 | 175 | 42 | 44 |
| Net income (loss)..... | \$ (117) | \$ (29) | \$ (534) | \$ (324) | \$ 67 | \$ 318 | \$ 2,034 | \$ 2,106 |

Revenues and operating results fluctuate from quarter to quarter as a result of a number of factors, such as the significance of client engagements commenced and completed during a quarter, the number of business days in a quarter and employee hiring and utilization rates. The timing of revenues varies from quarter to quarter because of the Company's sales cycle, the ability of clients to terminate engagements without penalty, the size and

scope of assignments and general economic conditions. Because a significant percentage of the Company's expenses are relatively fixed, a variation in the number of client assignments or the timing of the initiation or the completion of client assignments can cause significant variations in operating results from quarter to quarter. Furthermore, the Company has on occasion experienced a seasonal pattern in its operating results, with a smaller proportion of the Company's revenues and lower operating income occurring in the fourth quarter of the year or a smaller sequential growth rate than in other quarters.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary source of liquidity has been cash flow from operations, periodically supplemented by borrowings under a bank line of credit and by loans from stockholders. Operations provided funds of \$1.8 million for the six months ended June 30, 1996 as compared to \$232,000 in the six months ended June 30, 1995. Cash flow from operations amounted to \$118,000, \$254,000 and \$112,000 for 1993, 1994 and 1995, respectively. Operating income and net income decreased each year during this three year period, but the effects on cash flow were offset to varying degrees by changes in working capital. In particular, two elements of working capital, accounts receivable and accrued compensation and related costs, account for most of the variability in cash flow from operations. In 1993, accounts receivable increased as a result of higher revenues and because of an increase in the days revenue outstanding over the prior year. Accounts receivable decreased in 1994 as improvements in year-end collections reduced the days revenue outstanding at year end. At year end 1995, accounts receivable increased as a result of higher revenues and billings, partially offset by improvements in collections which further reduced the days revenue outstanding. The Company has a substantial level of accrued compensation at each year end because salaries are paid monthly, in arrears, and because annual incentives and bonuses earned and accrued during the calendar year are typically paid in the first quarter of the subsequent year. Incentives and bonuses are based on individual as well as overall business performance and represent a significant proportion of total compensation for both project personnel and executive management. In 1993, accrued compensation increased commensurately with revenues and project personnel levels. In 1994, accrued compensation decreased with the reduction in full time equivalent consultants. Accrued compensation for 1995 increased in line with the growth in professional personnel and improved utilization rates.

Investing activities have not required significant cash flows historically.

Cash flow used in financing activities was \$1.7 million for the six months ended June 30, 1996. During this period the Company issued notes payable to two shareholders in the aggregate amount of \$1.0 million. The notes, each with a principal amount of \$0.5 million, bear interest at a rate of 10% and mature on December 31, 1996. The proceeds from these notes and funds provided by operations were used to repay \$406,000 in debt outstanding under a line of credit, to pay a \$1.6 million S Corporation Dividend, and to make an advance of \$725,000 to an officer. At June 30, 1996, the Company had a line of credit which expires on December 31, 1996 and provides for maximum borrowings of \$1.2 million. Borrowings are limited to 65% of eligible accounts receivable and bear interest at the bank's prime rate (8.25% at June 30, 1996) plus 0.5%. There were no outstanding borrowings under the line of credit as of June 30, 1996.

Cash flow (used in) provided by financing activities amounted to (\$59,000), (\$168,000), and \$97,000 for 1993, 1994 and 1995, respectively.

The Company believes the net proceeds from the sale of Common Stock offered hereby, together with funds generated by operations, will provide adequate cash to fund its anticipated cash needs, which may include future acquisitions of complementary businesses, at least through the next eighteen months. Thereafter, the Company anticipates that its cash requirements related to future operations and potential acquisitions will be funded with cash generated from operations and short-term borrowings. The Company currently has no agreements,

understandings or commitments regarding future acquisitions. Pending such uses, the net proceeds will be invested in short-term, interest-bearing investment grade securities. The Company currently anticipates that it will retain all of its earnings for development of the Company's business and does

not anticipate paying any cash dividends in the foreseeable future.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets to Be Disposed Of," was issued in 1995. Implementation of SFAS No. 121 is effective for financial statements for fiscal years beginning after December 15, 1995. SFAS No. 121 established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill relating to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. SFAS No. 121 is not expected to have a significant impact on the Company's financial statements.

Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, was issued in October 1995. The Company will be required to adopt the new standard no later than fiscal 1996, although early adoption is permitted. This standard establishes the fair value based method (the "FAS 123 Method") rather than the intrinsic value based method as the preferred accounting methodology for stock-based compensation arrangements. Entities are allowed to: (i) continue to use the intrinsic value based methodology in their basic financial statements and provide in the footnotes pro forma net income and earnings per share information as if the FAS 123 Method had been adopted; or (ii) adopt the FAS 123 Method. Adoption of the FAS 123 Method would result in higher compensation cost for the Company.

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BUSINESS

The Metzler Group, Inc. is a leading nationwide provider of consulting services to electric utilities and other energy-related businesses. The Company offers a wide range of consulting services related to information technology, process/operations management, strategy, and marketing and sales designed to assist its clients in succeeding in a business environment of changing regulation, increasing competition and evolving technology.

OVERVIEW

Background. The electric utility industry is one of the largest industries in the United States. According to the Edison Electric Institute, in 1995 the total assets of investor-owned utilities (which account for the vast majority of the industry's generating capacity and revenues) exceeded \$575 billion and electric utility industry revenues from sales to end users totaled approximately \$207 billion.

Like other businesses, electric utilities are increasingly turning to outside consulting firms to assist in or lead the process by which such enterprises address fundamental changes. In general, businesses engage consultants because: (i) the pace of change is eclipsing the companies' internal resources; (ii) many enterprises lack the depth and breadth of experience to identify, evaluate and implement the full range of possible options and solutions; (iii) outside specialists often enable their clients to develop better solutions in shorter time frames; (iv) purchasing consulting expertise converts fixed labor costs to variable costs and can be more cost-effective; and (v) consultants can often formulate more objective advice, free of internal cultural or political forces.

Utility Consulting Opportunity. The utilities industry represents a significant market for consulting services. Alpha Publications Ltd. estimates that the market for utility consulting in the U.S. was 8% of the \$20.5 billion total market for consulting services in 1994, and that this market will grow at a 9% compound annual rate through 2000. Based on these data, the Company estimates that the market for consulting services to the utility industry was approximately \$1.8 billion in 1995.

The demand for consulting services in the U.S. electric utility industry is driven in significant part by the revolutionary change facing the industry as it begins to convert from a regulated monopoly structure to an increasingly competitive environment. Historically, due to the significant fixed costs inherent in generating and transmitting electricity, electric utilities were viewed as natural local monopolies, operating as an integrated entity to generate, transmit and distribute retail electricity within designated geographic service areas without competition from other suppliers.

However, as a result of recent market, regulatory and legislative factors, competition in the electric utility industry is being encouraged at both the state and federal regulatory levels, but the transformation to a competitive market for electricity is proceeding unevenly. Although deregulation of the transportation and telecommunications industries was accomplished relatively rapidly, deregulation of the electric utility industry has been more difficult due to the complex and overlapping web of over 200 federal and state regulatory bodies and the presence of a large number of separate, regulated companies. Accordingly, implementation will likely unfold on a state-by-state basis into the next century and may well face challenges from utilities and state and local governments.

Deregulation and the introduction of competition have created a significant need for consulting services that provide solutions to the problems facing electric utilities today. The changing competitive environment has forced the electric utility industry to confront an evolving range of strategic options and challenges, most of which are unfamiliar to participants that have operated under monopolistic assumptions since inception. Emerging strategies and challenges presently identified include the following:

- . Information Technology. In general, the electric utility industry has been slow to adopt the latest in information technologies. Rapid technological advances and competitive pressures are forcing utilities to replace antiquated systems with new technology and to undertake major, critical systems projects.

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- . Cost Control. Utilities must reduce their costs in order to improve margins and to offer more competitive prices. Many utilities are already engaging in significant restructuring efforts, including process redesigns, deploying innovative information systems and technologies and redefining staffing and skill-mix requirements.

- . Customer Focus and Innovation. In a fully deregulated electric utility market, end users will be able to select their electricity provider, much as they can choose their provider of long-distance and cellular telephone services today. In response, utilities, which have historically enjoyed a captive customer base, will need to develop marketing and sales skills to attract and retain customers, develop customer awareness and loyalty enhancement programs in order to establish brand identity and provide innovative services.

- . Organization Restructuring. A number of utilities are abandoning their traditional integrated corporate structure and are organizing into distinct divisions responsible for power generation, transmission, distribution, and billing and customer service in an effort to provide these services more efficiently and effectively. These divisions need to formulate their own strategies, develop their own administrative infrastructure and implement their own marketing campaigns.

- . Consolidation. More than 31 utilities have either consummated or announced mergers and other consolidations totaling more than \$41 billion in value since 1990. This trend is expected to continue as utilities seek to achieve economies of scale, increase geographic coverage, eliminate redundant infrastructure, increase market leverage, reduce their cost of capital and expand their customer base. After a combination is consummated, the new entity often faces the difficult process of combining separate operations and infrastructure to achieve the desired efficiencies.

- . Global Expansion. To improve investment opportunities and gain knowledge of deregulation, many utilities have taken advantage of utility privatization in foreign countries. This strategy has typically taken the form of either passive investments, alliances with other utilities, suppliers or financial institutions, or direct ownership and operation.

- . Developing New Services. In order to meet the increased expectations of the competitive marketplace, utilities are evaluating new value-added services, such as the ability to monitor and control electrical usage with computerized metering devices. Furthermore, utilities may provide services to customers that are not directly related to the delivery of electricity. Like cable and local telephone companies, electric utilities

have access to homes and businesses through their existing hard-wire connections, and they possess a significant infrastructure of poles and wires and related property easements. In addition, electric utilities have long-standing billing relationships with virtually every home and business in their service area. These factors may permit utilities to offer their customers a variety of new services--from security services in the near future, to telecommunications services and direct access video services in the distant future. In addition, many utilities are redirecting and redeploying assets through diversification initiatives, primarily within traditional business sectors such as energy services, fuel resources and services, and energy project investments.

STRENGTHS AND DIFFERENTIATION

Metzler offers a wide range of consulting services to electric utilities and other energy-related businesses to assist them in succeeding in a business environment of changing regulation, increasing competition and evolving technology. With its 44 full-time consultants devoted predominantly to the electric utility industry, the Company believes that it is a leading provider of electric utility consulting services. As a result, the Company believes that it is well equipped to offer its clients innovative solutions appropriately tailored to the changing dynamics of the electric utility industry.

The Company believes that several factors distinguish it from many of the other participants in the consulting industry. These Company strengths include the following:

Established Electric Utility Expertise. For over thirteen years, the Company has focused primarily on providing consulting services to the electric utility industry. The Company believes that its vertical focus

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and broad service offerings differentiate it from both general consulting firms that serve multiple industries and "niche" firms with limited skill sets that focus on the electric utility industry. The Company's consultants have significant prior industry or consulting experience and possess a breadth of functional knowledge in the critical business disciplines of strategic planning, information technology, accounting, finance, economics, organization design, marketing, sales, customer service, systems analysis, resource acquisition and asset management.

Deep-Rooted Client Relationships. By providing services to 34 of the 50 largest investor-owned electric utilities in the United States, the Company has developed numerous contacts at various levels within these client organizations, ranging from chief executive officers and other senior management to functional managers. Metzler's relationships can span multiple functional areas, which often leads to follow-on engagements. Many of the Company's relationships have moved beyond a relatively small initial project to span multiple engagements over a period of as much as eighteen months.

Proprietary Knowledge Base. Metzler has internally developed and continuously refines for use by its consultants a proprietary database of electric utility industry research, benchmarks and practical solutions. Relevant aspects of this accumulated knowledge are available to be incorporated quickly into the Company's analysis for new engagements, resulting in the consistent provision of proven, effective solutions and tangible benefits to its clients.

Wide Range of Industry-Specific Services. Many electric utility consulting engagements require the vendor to provide a broad array of service offerings--something many "niche" players cannot provide. Engagements often require creative solutions that must be drawn from diverse areas of expertise. Metzler's expertise in a wide range of services enables the Company to better pursue such opportunities and to offer itself as a single-source provider of information technology, process/operations management, strategy, and marketing and sales consulting services to utilities.

Strategic Planning Methodology. In its engagements, the Company uses COMPPASS 2000SM, a high-level modeling tool developed by Metzler to evaluate and explore broad issues in support of a utility's comprehensive strategic planning process. COMPPASS 2000 integrates available information on system capabilities (generation, transmission and distribution) and the marketplace

(competitors and customers) to test and evaluate proposed management strategies against system constraints, market needs, regulatory commitments and potential competitive responses to maintain a company's competitive advantage within the evolving electric utility industry.

GROWTH STRATEGY

The Company's goal is to become the preeminent provider of a full range of consulting services necessary for electric utilities to thrive in a dynamic environment. Metzler's strategy to achieve this goal includes the following elements:

Further Penetrate Existing Client Base. Although Metzler has provided consulting services to many of the largest utilities in the United States, some of these clients have historically engaged the Company to provide only limited types of services or to provide services to a single division or business unit. The Company believes that the provision of additional services to its existing client base represents a significant growth opportunity and that the opportunity can be better pursued if the Company adds consultants and further develops internal resources. The access, contact and goodwill provided by its existing client relationships afford it significant advantages in marketing additional services and solutions on an enterprise-wide basis.

Seek New Clients and Expand Geographic Presence. The Company intends to target new clients by increasing its nationwide presence through the hiring of consultants with existing client relationships or through acquisitions of existing consulting firms. The Company will place particular emphasis on hiring new consultants that will expand the Company's geographic presence.

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Continue to Recruit Highly Skilled Professionals. The Company believes that its continued success and growth require it to expand its base of highly skilled professionals. In order to compete successfully for new business and to obtain additional business from existing clients, the Company continually strives to recruit qualified, experienced personnel possessing the skills currently demanded by the changing dynamics of the electric utility industry. The Company particularly targets senior professionals with skills and client relationships that complement services currently offered by Metzler. The Company believes it enhances recruitment and retention of consultants by offering packages of base and incentive compensation and benefits that are significantly more attractive than those offered by the consulting industry in general. The Company also believes that operating as a public company will aid greatly in recruiting, retaining and incentivizing current and future employees.

Pursue Strategic Acquisitions. Given the highly fragmented nature of the consulting services marketplace, Metzler believes numerous acquisition opportunities exist. Acquisitions may provide the Company with a fast, cost-effective method to increase its number of consultants, broaden its client base, establish or expand its presence in a geographic region or obtain additional skill sets. In addition, the Company intends to seek to acquire or develop relationships with firms serving the utility industry whose services complement the Company's current offerings, thereby enabling the Company to market its existing services to the acquired company's client base and to market the acquired company's services to its own clients. The Company may also pursue vertical integration by acquiring businesses which it currently engages on a subcontractor basis to provide specialized technical skills in certain engagements.

Expand Service Offerings. The Company believes that in a more competitive marketplace, many electric utilities may seek to concentrate on their core business and delegate the operation of support functions to outside consulting firms. The Company is exploring the possibility of providing its electric utility clients with outsourcing services for certain information technology tasks and customer support operations.

SERVICES

The Company offers its consulting services in four principal areas: information technology, process/operations management, strategy, and marketing and sales. In order to understand the basic characteristics of a client, organizational unit or project, the Company generally performs more than 75% of the engagement at the client's site. This on-site presence helps avoid the

development of conclusions drawn from limited exposure to company personnel, processes and facilities and enables Metzler consultants to be available to service further or expanded client needs as they may evolve. Although extensive time is spent on site, all Metzler consultants have portable computers running common software for word processing and tabular and graphic presentations, thereby allowing the project team to remain relatively independent of and non-intrusive into the client's daily business operations.

The table below provides examples of the Company's service offerings in each of these areas.

| CATEGORY OF SERVICE | DESCRIPTION OF PROJECTS |
|----------------------------------|--|
| INFORMATION TECHNOLOGY | <ul style="list-style-type: none"> . Total life cycle analysis and implementation of activity-based management systems, including process evaluation, activity definition, chart of accounts and system design, construction and implementation . Development of strategic information systems plans . Development of information systems such as activity-based management and marketing information systems . Development of information requirements and package evaluations for executive information systems, materials management systems and work management systems . Development of telecommunications systems, including integrated communications planning, communications market analysis, network traffic evaluation and customer operations process design |
| PROCESS/OPERATIONS MANAGEMENT | <ul style="list-style-type: none"> . Examination and reorganization of customer operations . Evaluation of distribution operations . Business process redesign of the material procurement and contract function . Consolidation options for transmission, distribution and customer service operations . Examination and restructuring of plant operations and maintenance functions . Consolidation and integration options for the marketing and customer services operations . Development of materials management programs . Materials management support for outages . Development of procurement strategies, policies and procedures . Examination of contract consolidation |
| STRATEGY | <ul style="list-style-type: none"> . Identification and evaluation of candidates for merger, consolidation or acquisition . Evaluation of alternative regulatory and legislative positions . Identification of how market clearing prices would respond to various strategic initiatives and activities within the marketplace . Development of non-regulated business plans and objectives, including investment and spending objectives . Examination of domestic and international energy market sectors and identification of opportunities for competitive leverage . Development of negotiation strategies for the client in the initiation and renewal of power commitment contracts . Independent evaluation of the planning process and products . Quantification and prioritization of operational and business strategies |
| MARKETING AND SALES | <ul style="list-style-type: none"> . Marketing analysis, market surveys, competitive assessments and profitability objectives . Detailed analysis of the marketplace including potential size and volume growth rates, customer preferences, |

- competitive strategies and market penetration options
- . Market survey of industrial and commercial customers in response to proposed unbundled energy services
- . Development of market strategies and marketing plans
- . Restructuring of account management programs
- . Restructuring and consolidation of distribution system networks to optimize service delivery
- . Redesign and implementation of marketing and customer service functions

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MARKETING AND SALES

The Company markets its services directly to senior executives of utilities from its headquarters near Chicago, Illinois. The Company employs a variety of business development and marketing techniques to communicate directly with current and prospective clients, including on-site presentations to senior utility executives, industry seminars featuring presentations by Metzler personnel and authoring of articles and other publications regarding the utility industry and the Company's methodologies.

A significant portion of new business arises from prior client engagements. Clients frequently expand the scope of engagements during delivery to include follow-on complementary activities. Also, the Company's on-site presence affords it the opportunity to become aware of, and to help define, additional project opportunities as they are identified by the client. The strong client relationships arising out of many engagements often facilitate the Company's ability to market additional capabilities to its clients in the future. In addition, the Metzler senior management team is actively engaged in meeting with utilities that have not yet engaged the Company and newly appointed senior managers in utilities where the Company has worked in the past to make them aware of the Company's capabilities.

CLIENTS AND REPRESENTATIVE SERVICES

The Company has performed consulting assignments for more than 100 utility industry clients, principally investor-owned electric utilities. The Company's clients also include gas and water companies and other ownership structures such as holding companies, electric cooperatives, public power agencies and state regulatory commissions. The Company also serves independent power producers, co-generators and power marketers and suppliers to the utility industry.

Because of the nature and scope of many of the Company's projects, the Company derives a significant portion of its revenues from a relatively limited number of clients that operate exclusively in the electric utility industry. For example, during 1995 and the first half of 1996, revenues from the Company's ten most significant clients accounted for approximately 80.5% and 76.3% of its revenues, respectively. In 1995, a group of affiliated clients (Entergy Corporation and its affiliates) and the Company's then largest single client (Texas Utilities Company) accounted for approximately 22.6% and 15.5% of the Company's revenues, respectively. The Company's largest clients typically engage the Company on consulting projects that span from twelve to eighteen months and thereafter the Company may not be rehired for a significant project for varying periods of time. This typical engagement cycle causes the Company's ten most significant clients, absent project carryovers, to change from year to year. For these reasons, the Company believes that it is not materially dependent on any particular client.

A list of representative clients is set forth below:

| | | |
|------------------------------|-----------------------------|---------------------------------------|
| Allegheny Power System, Inc. | Kansas City Power & Light | Pennsylvania Power & Light Co. |
| Baltimore Gas & Electric Co. | Kentucky Utilities | Philadelphia Electric Co. |
| Carolina Power & Light Co. | Long Island Lighting Co. | Pinnacle West Capital Corp. |
| Centerior Energy Corp. | New England Electric System | Public Service Enterprise Group, Inc. |
| Central and South West Corp. | Niagara Mohawk Power Co. | Public Service of Colorado |
| CINergy | NIPSCO | San Diego Gas & Electric Co. |
| CMS Energy Corp. | Northeast Utilities | SCANA Corp. |
| Commonwealth Edison Co. | Northern States Power Co. | SCEcorp. |
| Dominion Resources, Inc. | Ohio Edison Co. | Texas Utilities Company |

Entergy Corporation
General Public Utilities Corp.
Houston Industries Incorporated
Illinois Power Co.

Oklahoma Gas & Electric Co.
Pacific Gas & Electric Co.
PacifiCorp

The Southern Company
Western Resources
Wisconsin Energy Corp.

Examples of Metzler's engagements, which are representative of the nature of the Company's services and client relationships, are set forth below:

Strategic and Operations Planning. A start-up energy services company engaged Metzler to assist in its strategic and operations planning. The client was created from an acquisition by an electric utility company as part of the utility's diversification strategy in preparation for deregulation. Over the course of a multi-year engagement, the Company performed regulatory, financial, marketing and product development studies to help develop and implement the energy service company's business strategy.

Business Strategy Implementation Planning. For a large east coast electric utility, Metzler jointly worked with a joint client team to complete a comprehensive analysis of its electric distribution business. This analysis identified specific strategies for the client to pursue in order to improve its competitive position. Using this analysis, Metzler led the development of a new business model for these operations, transitioning to the development of a separate power distribution entity. The new model focused on maximizing service levels while improving the cost competitiveness of the distribution business. The resulting implementation plan specified the procedures for the client to follow over the next three years in parallel to ongoing changes in the industry.

Distribution Operations Redesign. Metzler worked with management of a major southwest electric utility to identify opportunities to redesign the service delivery network for metropolitan operations serving 1.2 million customers and involving 1,500 distribution personnel. The analysis involved developing a comprehensive operations model for the business and evaluating existing boundaries, facilities, and work practices. The resulting recommendations lead to the development of implementation teams to move forward in four key areas: (i) establishing a flexible organization that can respond to customer changes over time; (ii) implementing job site reporting for company construction personnel, improving service and reducing costs; (iii) redesigning trouble response operations to reduce outage times; and (iv) implementing new work day structures to increase utilization.

HUMAN RESOURCES

As of July 1, 1996, the Company's personnel consisted of 52 employees, consisting of 44 full-time consultants and eight support personnel. The Company's success depends in large part on attracting, retaining and motivating talented, creative and experienced professionals at all levels. See "Risk Factors--Attraction and Retention of Employees." In connection with its hiring efforts, the Company employs a full-time human resources coordinator, retains several executive search firms and relies on personal and business contacts to recruit professionals with significant utility industry or consulting experience. The Company's hiring focus is not on finding a large number of employees, but rather on identifying candidates who are well suited by background and temperament to serve the Company's utility client base. The Company's consultants are drawn from utility and related industries such as engineering, construction and telecommunications, and from accounting and other consulting organizations. The Company's fifteen senior most managers each average a total of fifteen years of utility industry and consulting experience. The Company has experienced consultant attrition of approximately 15% over each of the last two years, predominately at the associate level.

The Company has developed mentoring programs to assist in training its employees, and intends to further enhance its focus on employee training in the future. The Company also develops its consultants through a training program, as well as review of precedent from prior Company engagements.

The Company promotes loyalty and continuity of its consultants by offering packages of base and incentive compensation and benefits that it believes are significantly more attractive than those offered by the consulting industry in general. In addition, to attract and retain consultants, the Company has established several employee benefit plans. See "Management--Long-Term

Incentive Plan."

In addition to the employees discussed above, Metzler supplements its consultants on certain engagements with independent contractors, many of whom are former employees of the Company. The Company is responsible for selecting these individuals and integrating their work product into a total solution for the

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Company's utility client. The Company has 37 individuals on its current list of approved independent contractors, of whom approximately ten to fifteen are working on engagements with Metzler at any given time. The Company believes that its practice of retaining independent contractors on a per-engagement basis provides it with greater flexibility in adjusting professional personnel levels in response to changes in demand for its services.

COMPETITION

The market for consulting services to electric utilities is intensely competitive, highly fragmented and subject to rapid change. The market includes a large number of participants from a variety of market segments, including general management consulting firms, the consulting practices of "Big Six" accounting firms, and local or regional firms specializing in utility services. Many information technology consulting firms also maintain significant practice groups devoted to the utility industry. Many of these companies are national and international in scope and have greater financial, technical and marketing resources than the Company. The Company believes that its experience, reputation, industry focus and broad range of services will enable it to compete effectively in its marketplace. See "Risk Factors-- Competition."

FACILITIES

Metzler currently operates from 10,000 square feet of leased office space located in Deerfield, Illinois. The Company believes that additional space will be required as its business expands geographically and that it will be able to obtain suitable space as needed.

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MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The Company's executive officers and directors and their respective ages and positions as of August 1, 1996, are as follows:

| NAME | AGE | POSITION |
|---------------------------|-----|--|
| Robert P. Maher..... | 46 | Chairman of the Board, President, Chief Executive Officer and Director |
| Gerald R. Lanz..... | 48 | Chief Operating Officer and Director |
| James F. Hillman..... | 39 | Chief Financial Officer and Treasurer |
| James T. Ruprecht..... | 37 | Senior Vice President and Director |
| James R. Blomberg..... | 36 | Senior Vice President |
| David J. Donovan..... | 46 | Senior Vice President |
| Stephen R. Goldfield..... | 32 | Senior Vice President |
| Richard J. Metzler..... | 55 | Senior Vice President |

Robert P. Maher has served as a Director of the Company since April 1991. He has served as Chief Executive Officer and President since January 1996 and as Chairman of the Board since June 1996. From August 1990 to December 1995, Mr. Maher held various positions with the Company, most recently as a Senior Vice President working primarily in the information technology area. From 1988 to August 1990, he was a principal with the consulting practice of Ernst & Young LLP where he organized and directed information technology engagements for the regulated segment of the communications industry practice.

Gerald R. Lanz has served as a Director of the Company since January 1996

and as Chief Operating Officer since June 1996. From December 1994 to June 1996, Mr. Lanz held various management positions with the Company, most recently as a Senior Vice President working in the area of strategic and business practices. From July 1989 to June 1994, he was employed by Ameritech Corporation in a series of management positions, most recently as Vice President of Marketing and Business Development for its Small Business Services division.

James F. Hillman has served as the Chief Financial Officer and Treasurer since June 1996. From April 1996 to June 1996, Mr. Hillman served as a Principal Associate of the Company. From July 1988 to March 1996, he was employed by Ameritech Corporation, most recently as the Chief Financial Officer of Ameritech Monitoring Services, Inc.

James T. Ruprecht has served as a Director of the Company since December 1994 and as a Senior Vice President since January 1994. From April 1987 to January 1996, Mr. Ruprecht held various management positions with the Company, working primarily in the areas of business process re-engineering, customer operations and supply chain management. Prior to his employment at Metzler, he held various positions with the Northern Illinois Gas Company, most recently as an Area Manager of Operations.

James R. Blomberg has served as a Senior Vice President since January 1996. From May 1989 to January 1996, Mr. Blomberg held various management positions with the Company, working primarily in the areas of business process re-engineering, customer operations and marketing. He served as a Director of the Company from June 1995 to June 1996.

David J. Donovan has served as a Senior Vice President since April 1987, working in the areas of strategic marketing and energy planning. He served as a Director of the Company from April 1991 to June 1996.

Stephen R. Goldfield has served as a Senior Vice President since January 1996. From July 1990 to January 1996, Mr. Goldfield held various senior management positions with the Company. He served as Director of the Company from June 1995 to June 1996. Prior to his employment at the Company, Mr. Goldfield was employed by the Philadelphia Electric Company.

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Richard J. Metzler, the founder of the Company, has served as a Senior Vice President and Chairman Emeritus since June 1996. From January 1996 to June 1996 he served as Treasurer, and from July 1983 to December 1995 Mr. Metzler served as the President and Chairman of the Board of the Company. He served as a Director of the Company from July 1983 to June 1996.

The Company's executive officers are appointed annually by, and serve at the discretion of, the Board of Directors. Each executive officer is a full-time employee of the Company. The Board of Directors currently consists of three members. The Company expects to fill the two current vacancies on the Board with independent directors following the consummation of the offering. The Board of Directors is divided into three classes, each of whose members serve for a staggered three-year term. The Board is comprised of two Class I Directors (to be appointed within 90 days after the closing of this offering), two Class II Directors (Messrs. Lanz and Ruprecht) and one Class III Director (Mr. Maher). At each annual meeting of stockholders the appropriate number of directors will be elected for a three-year term to succeed the directors of the same class whose terms are then expiring. The terms of the Class I Directors, Class II Directors and Class III Directors will expire upon the election and qualification of successor directors at the annual meetings of stockholders held in calendar years 1997, 1998 and 1999, respectively. There are no family relationships between any director or executive officer of the Company.

BOARD COMMITTEES

The Audit Committee will be responsible for reviewing with management the financial controls, accounting and audit and reporting activities of the Company. The Committee will review the qualifications of the Company's independent auditors, make recommendations to the Board of Directors regarding the selection of independent auditors, review the scope, fees and results of any audit and review non-audit services and related fees provided by the independent auditors. The members of the Audit Committee have not yet been appointed. The Company intends to appoint the two independent directors to

this committee.

The Compensation Committee will be responsible for the administration of all salary and incentive compensation plans for the officers and key employees of the Company, including bonuses. The Committee will also administer the Company's Long-Term Incentive Plan. The members of the Compensation Committee have not yet been appointed. The Company intends to appoint the two independent directors to this committee.

No director has been appointed to the Company's Audit Committee or Compensation Committee as of the date of this Prospectus. When the two independent directors are elected after this offering, they will each be appointed to each committee and will collectively constitute all members of both committees.

The Board of Directors does not have a nominating committee. The selection of nominees for the Board of Directors will be made by the entire Board of Directors.

DIRECTOR COMPENSATION

Directors who are not executive officers of the Company will be paid a fee of \$1,000 for each board meeting attended in person and all directors will be reimbursed for travel expenses incurred in connection with attending board and committee meetings. Directors are not entitled to additional fees for serving on committees of the Board of Directors. Pursuant to the terms of the formula program of the Company's Long-Term Incentive Plan, each director of the Company appointed after the completion of this offering who is not otherwise employed by the Company automatically will be granted an option to purchase 3,000 shares of Common Stock for each year of the term to be served upon his or her initial election or re-election to the Board of Directors. The options will have an exercise price equal to the fair market value of the Common Stock on the date of grant, and will be exercisable in equal annual installments over the term to be served beginning on the first anniversary of the date of grant.

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EXECUTIVE COMPENSATION

The following table sets forth certain information with respect to the annual and long-term compensation earned for the fiscal year ended December 31, 1995 for the Company's Chief Executive Officer and the four most highly compensated executive officers other than the Chief Executive Officer (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | ANNUAL COMPENSATION (1) | | ALL OTHER COMPENSATION (2) |
|--|----------------------------|-----------|-------------------------------|
| | SALARY | BONUS | |
| Robert P. Maher President and Chief Executive Officer..... | \$ 182,333 | \$414,505 | \$ 9,636 |
| Gerald R. Lanz Chief Operating Officer..... | 175,000 | 599,230 | -- |
| James T. Ruprecht Senior Vice President..... | 175,000 | 864,205 | 11,136 |
| David J. Donovan Senior Vice President..... | 175,000 | 678,011 | 11,136 |
| Richard J. Metzler Senior Vice President..... | 1,050,776 | 412,938 | 11,136 |

- - - - -
- (1) The Company did not issue any restricted stock or grant any stock appreciation rights or make any Long-Term Incentive Plan payouts to any of the Named Executive Officers in 1995.
- (2) Represents matching payments and profit sharing under the Company's 401(k) Plan.

Effective as of July 1, 1996, the Board of Directors, which consists solely of three Named Executive Officers, approved a new compensation program for the Named Executive Officers. The program provides for initial annual base salaries ranging from \$225,000 to \$375,000. In addition to the base salaries, a bonus structure has been established under which bonuses ranging from 0% to 125% of the Named Executive Officer's annual base salary will be awarded based on the attainment of certain financial performance criteria. The Company anticipates that the independent members of the Board of Directors, who will comprise the Compensation Committee, will ratify this compensation plan upon their appointment within 90 days of the date of this Prospectus. Under the compensation program, the Company's other senior managers will have annual base compensation and bonus arrangements similar to the Named Executive Officers. The Company has no written employment contracts with any of its executive officers. In the future, the Company's Compensation Committee will determine the terms of employment for executive officers on an annual basis.

LONG-TERM INCENTIVE PLAN

The Board of Directors has adopted The Metzler Group, Inc. Long-Term Incentive Plan (the "Long-Term Plan"). The Long-Term Plan is designed to enhance the long-term profitability and stockholder value of the Company by offering Common Stock, Common Stock-based, and other performance incentives to those individuals who are key to the growth and success of the Company, to attract and retain executives with experience and ability on a basis competitive with industry practice and to encourage executives to acquire and maintain stock ownership in the Company.

The Long-Term Plan is administered by the Compensation Committee, which, except for the formula program (the "Formula Program") noted below for non-employee directors, has exclusive authority to grant awards under the Long-Term Plan and to make all interpretations and determinations affecting the Long-Term Plan. The Compensation Committee has the discretion to determine the individuals to whom Awards (as defined below) are granted, the amount of such Award, any applicable vesting schedule and other terms of any Award.

Participation in the Long-Term Plan is limited to employees, consultants, advisors and independent contractors of the Company and its subsidiaries who are selected from time to time by the Compensation Committee. In addition, non-employee directors automatically participate in the Formula Program. Awards under the Long-Term Plan may be in the form of stock options (including both incentive stock options that meet the requirements of Section 422 of the Internal Revenue Code and nonqualified stock options), stock awards, restricted stock grants, stock appreciation rights ("SARs") and performance awards (collectively, "Awards").

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Any Award issued under the Long-Term Plan that is forfeited, expired, canceled or terminated prior to vesting or exercise will again become available for grant under the Long-Term Plan.

The Long-Term Plan also includes the Formula Program. The Formula Program provides for the automatic grant of options to purchase shares of Common Stock to non-employee directors of the Company. Pursuant to the terms of the Formula Program, each director of the Company who is not otherwise employed by the Company automatically will be granted an option to purchase 3,000 shares of Common Stock for each year of the term to be served upon his or her initial election or re-election to the Board of Directors. The options will vest in equal annual installments over the term to be served beginning on the first anniversary of the option grant date.

The maximum number of shares of Common Stock that may be issued and sold under the Long-Term Plan is 1,300,000 shares, subject to an automatic increase on the first trading day of each calendar year by a number of shares equal to ten percent of the increase (if any) in the number of shares outstanding on December 31 of the preceding calendar year over the number of shares outstanding on January 1 of the preceding calendar year. In the event of any stock dividend, stock split, recapitalization, merger, other change in the capitalization of the Company or similar corporate transaction or event affecting the Common Stock the Compensation Committee may make appropriate adjustments to the Awards. Alternatively, the Company may accelerate the timing of the exercise of any Awards or cancel any Award and provide instead for the payment to the participant in cash of the economic value of the Award at the time of cancellation.

On June 30, 1996, the Company granted options under the Long-Term Plan to all of its employees other than then-existing stockholders to purchase an aggregate of 355,666 shares at an exercise price of \$12 per share, which was equal to the estimated fair market value of the Common Stock as of that date. In general, the options are exercisable in four approximately equal annual installments commencing on July 1, 1998.

CERTAIN TRANSACTIONS

In December 1995, Richard J. Metzler, the Company's founder and owner of 85% of its capital stock at that time, sold 70% of the Company's outstanding capital stock for total consideration of \$3,231,900 (\$0.48 per share) to the other then-existing shareholders, who are all senior officers of the Company. Following the completion of this transaction, Messrs. Metzler, Donovan, Goldfield, Lanz, Maher and Ruprecht each owned 15% of the Company's capital stock and Mr. Blomberg owned 10% of the Company's capital stock. In connection with this ownership transition from Mr. Metzler to the existing stockholders, the Company and each of the Selling Stockholders entered into a shareholders agreement (the "Shareholders Agreement"), pursuant to which, among other things: (i) certain actions of the Company required the prior approval by a specified number of the stockholders; (ii) compensation levels and dividends were fixed; and (iii) certain restrictions relating to the transfer of the shares of Common Stock were established. In addition, under the terms of the Shareholders Agreement, Mr. Metzler was granted a "look-back" option pursuant to which, under certain circumstances including a public offering of Common Stock of the Company, Mr. Metzler was granted the right to repurchase from the existing stockholders certain shares of Common Stock for a total consideration of \$1.00. Immediately prior to this offering, Mr. Metzler will exercise his "look-back" option to purchase from the other shareholders of the Company 257,143 shares from each of Messrs. Donovan, Goldfield, Lanz, Maher and Ruprecht and 171,428 shares from Mr. Blomberg and the Shareholders Agreement was terminated. Pursuant to a Redemption Agreement between the Company and Mr. Metzler to be effective as of the date of this Prospectus, the Company will repurchase 1,714,285 shares from Mr. Metzler in exchange for a promissory note in the amount of \$7,975,000. The redemption price was reached through arms-length negotiations between Mr. Metzler, who was not represented by Company counsel and was the beneficial owner of only 15% of the Common Stock at the time, and the Company.

During the years ended December 31, 1993, 1994 and 1995, Richard Metzler, the founder of the Company and a director at the time, withdrew advances aggregating \$715,000, \$457,000 and \$289,000, respectively, from the Company that were later converted to salary expense.

Richard Metzler borrowed \$725,000 from the Company, as evidenced by a promissory note dated May 1, 1996 that bears interest at 6% and was due in three equal annual installments beginning on December 31, 1996. In September 1996, this note was amended to be immediately due and payable in cash upon the closing of this offering.

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During 1993 and 1994 the Company paid expenses and collected revenues on behalf of LORE Systems, Inc. ("LORE"), a company owned solely by Mr. Metzler. LORE was in the business of developing and creating optical image databases from printed documents and indexing them for storage and rapid retrieval. Amounts paid by the Company, net of amounts collected, were reimbursed by LORE. Expenses paid by the Company on behalf of LORE during the years ended December 31, 1993 and 1994 were \$294,194 and \$228,275, respectively.

In January 1996, the Company borrowed \$500,000 from each of Messrs. Metzler and Maher for operating capital. The promissory notes bear interest at 10% per annum and are due on December 31, 1996.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth certain information regarding the beneficial ownership of Common Stock immediately prior to the effective date of this offering, and as adjusted to reflect the sale of the shares offered hereby, by: (i) each person known by the Company to own beneficially more than five

percent of the outstanding shares of Common Stock; (ii) each of the Company's directors; (iii) each of the Named Executive Officers; (iv) each Selling Stockholder; and (v) all directors and executive officers of the Company as a group. Each person named below has an address in care of the Company's principal executive offices. The Company believes that each person named below has sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by such holder, subject to community property laws where applicable.

| NAME | BENEFICIAL OWNERSHIP PRIOR TO OFFERING (1) | | NUMBER OF SHARES BEING OFFERED | BENEFICIAL OWNERSHIP AFTER OFFERING (1) | |
|--|--|---------|--------------------------------|---|---------|
| | NUMBER OF SHARES | PERCENT | | NUMBER OF SHARES | PERCENT |
| David J. Donovan..... | 1,200,000 | 15.0% | 100,000 | 1,100,000 | 10.7% |
| Stephen R. Goldfield..... | 1,200,000 | 15.0% | 100,000 | 1,100,000 | 10.7% |
| Gerald R. Lanz..... | 1,200,000 | 15.0% | 100,000 | 1,100,000 | 10.7% |
| Robert P. Maher(2)..... | 1,200,000 | 15.0% | 100,000 | 1,100,000 | 10.7% |
| Richard J. Metzler..... | 1,200,000 | 15.0% | 600,000 | 600,000 | 5.8% |
| James T. Ruprecht..... | 1,200,000 | 15.0% | 100,000 | 1,100,000 | 10.7% |
| James R. Blomberg..... | 800,000 | 10.0% | 100,000 | 700,000 | 6.8% |
| All Directors and Executive Officers as a group (8 persons)..... | 8,000,000 | 100.0% | 1,200,000 | 6,800,000 | 66.0% |

- (1) Applicable percentage of ownership as of July 1, 1996 is based upon 8,000,000 shares of Common Stock outstanding. Applicable percentage ownership after this offering is based upon 10,300,000 shares of Common Stock outstanding. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission, and includes voting and investment power with respect to the shares shown as beneficially owned.
- (2) Mr. Maher maintains voting control over an aggregate of 116,571 shares held of record equally by each of his three children, which shares are included in the shares indicated as beneficially owned by Mr. Maher.

DESCRIPTION OF CAPITAL STOCK

GENERAL

The authorized capital stock of the Company consists of 15,000,000 shares of Common Stock, par value \$.001 per share, and 3,000,000 shares of Preferred Stock, par value \$.001 per share (the "Preferred Stock"). Prior to the consummation of the offering, the Company will have outstanding 8,000,000 shares of Common Stock and no shares of Preferred Stock. Upon completion of this offering, the Company will have outstanding 10,300,000 shares of Common Stock and no shares of Preferred Stock. As of July 1, 1996, there were seven record holders of Common Stock.

COMMON STOCK

Holder of Common Stock are entitled to one vote per share for the election of directors and all other matters submitted for stockholder vote, except matters submitted to the vote of another class or series of shares. Holders of Common Stock are not entitled to cumulative voting rights. Therefore, the holders of a majority of the shares voting for the election of directors can elect all of the directors if they choose to do so. The holders of Common Stock are entitled to dividends in such amounts and at such times, if any, as may be declared by the Board of Directors out of funds legally available therefor. The Company has not paid any dividends, other than dividends paid in connection with the Company's S-corporation status (see "S Corporation Dividend"), on its Common Stock and does not anticipate paying any cash dividends on such stock in the foreseeable future. See "Dividend Policy." Upon liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all net assets available for distribution to stockholders after payments to creditors. The Common Stock is

not redeemable and has no preemptive or conversion rights.

The rights of the holders of Common Stock are subject to the rights of the holders of any Preferred Stock which may, in the future, be issued. All outstanding shares of Common Stock are, and the shares of Common Stock to be sold by the Company in this offering when issued will be, duly authorized, validly issued, fully paid and nonassessable.

PREFERRED STOCK

The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of Common Stock. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others.

ANTITAKEOVER EFFECTS OF PROVISIONS OF THE CERTIFICATE OF INCORPORATION, BY-LAWS AND DELAWARE LAW

Certificate of Incorporation and By-Laws. The Company's Certificate of Incorporation provides that the Board of Directors will be divided into three classes of directors, each class constituting approximately one-third of the total number of directors and with the classes serving staggered three-year terms. The By-Laws provide that the Company's stockholders may call a special meeting of stockholders only upon a request of stockholders owning at least 50% of the Company's capital stock. These provisions of the Certificate of Incorporation and By-Laws could discourage potential acquisition proposals and could delay, defer or prevent a change in control of the Company. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the Board of Directors and in the policies formulated by the Board of Directors and to discourage certain types of transactions that may involve an actual or threatened change of control of the Company. These provisions are designed to reduce the vulnerability of the Company to an unsolicited acquisition proposal. The

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provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for the Company's shares and, as a consequence, they also may inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in the management of the Company. See "Risk Factors--Certain Anti-Takeover Effects."

Delaware Takeover Statute. The Company is subject to Section 203 of the Delaware General Corporation Law ("Section 203"), which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder, unless: (i) prior to such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (a) by persons who are directors and also officers and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to such plans will be tendered in a tender or exchange offer; or (iii) on or subsequent to such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines business combination to include: (i) any merger or

consolidation involving the corporation and the interested stockholder; (ii) any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder; (iii) subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; (iv) any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or (v) the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation. In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person.

LIMITATION OF LIABILITY AND INDEMNIFICATION

Limitation of Liability. As permitted by the Delaware General Corporation Law, the Company's Certificate of Incorporation provides that directors of the Company shall not be personally liable for monetary damages to the Company for certain breaches of their fiduciary duty as directors, unless they violated their duty of loyalty to the Company or its stockholders, acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions, or derived an improper personal benefit from their action as directors. This provision would have no effect on the availability of equitable remedies or nonmonetary relief, such as an injunction or rescission for breach of the duty of care. In addition, the provision applies only to claims against a director arising out of his or her role as a director and not in any other capacity (such as an officer or employee of the Company). Further, liability of a director for violations of the federal securities laws will not be limited by this provision. Directors will, however, no longer be liable for monetary damages arising from decisions involving violations of the duty of care which could be deemed grossly negligent.

Indemnification. The Certificate of Incorporation provides that directors and officers of the Company shall be indemnified by the Company to the fullest extent authorized by Delaware law, as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with service for or on behalf of the Company. The Certificate of Incorporation also authorizes the Company to enter into one or more agreements with any person that provide for indemnification greater or different from that provided in the Certificate of Incorporation. The Company has entered into indemnification agreements with all current members

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of the Board of Directors and executive officers. The Company believes that these provisions and agreements are desirable to attract and retain qualified directors and officers. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions, or otherwise, the Company has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Stock is Harris Trust and Savings Bank.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have 10,300,000 shares of Common Stock outstanding. Of these shares, the 3,500,000 shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except that any shares purchased by "affiliates" of the Company, as that term is defined under the Securities Act ("Affiliates"), may generally only be sold in compliance with the limitations of Rule 144 described below.

The remaining 6,800,000 shares of Common Stock are deemed "Restricted Shares" under Rule 144. The number of shares of Common Stock available for sale in the public market is limited by restrictions under the Securities Act and lock-up agreements under which the holders of such shares have agreed not

to sell or otherwise dispose of any of their shares for a period of 180 days after the effective date of this offering (the "Lock-Up Period") without the prior written consent of the Representative. Because of these restrictions, on the date of this Prospectus, no shares other than the 3,500,000 shares offered hereby will be eligible for sale. Until October 1997, no Restricted Shares may become available for sale in the public market subject to Rule 144 and Rule 701 of the Securities Act.

In general, under Rule 144 of the Securities Act as currently in effect, beginning 90 days after this offering, a person (or persons whose shares are aggregated) who has beneficially owned "restricted" shares for at least two years, including a person who may be deemed an Affiliate of the Company, is entitled to sell within any three-month period a number of shares of Common Stock that does not exceed the greater of 1% of the then-outstanding shares of Common Stock of the Company (103,000 shares after giving effect to this offering) or the average weekly trading volume of the Common Stock as reported through the Nasdaq National Market during the four calendar weeks preceding such sale. Sales under Rule 144 of the Securities Act are subject to certain restrictions relating to manner of sale, notice and the availability of current public information about the Company. In addition, under Rule 144(k) of the Securities Act, a person who is not an Affiliate of the Company at any time 90 days preceding a sale, and who has beneficially owned shares for at least three years, would be entitled to sell such shares immediately following this offering without regard to the volume limitations, manner of sale provisions or notice or other requirements of Rule 144 of the Securities Act.

Rule 701 under the Securities Act provides that shares of Common Stock acquired on the exercise of outstanding options may be resold by persons other than Affiliates, beginning 90 days after the date of this Prospectus, subject only to the manner of sale provisions of Rule 144, and by Affiliates, beginning 90 days after the date of this Prospectus, subject to all provisions of Rule 144 except its two-year minimum holding period. The Company intends to register on a registration statement on Form S-8, shortly after the date of this Prospectus, a total of 1,300,000 shares of Common Stock reserved for issuance under the Company's Long-Term Incentive Plan.

UNDERWRITING

Subject to certain terms and conditions of the Underwriting Agreement, the underwriters named below (the "Underwriters"), for whom Donaldson, Lufkin & Jenrette Securities Corporation is acting as Representative, have severally agreed to purchase from the Company and the Selling Stockholders, and the Company and the Selling Stockholders have agreed severally to sell to each of the Underwriters, the number of shares of Common Stock (the "Shares") set forth opposite their respective names at the initial public offering price per share less the underwriting discounts and commissions set forth on the cover of this Prospectus.

| UNDERWRITERS | NUMBER OF SHARES |
|--|---------------------|
| Donaldson, Lufkin & Jenrette Securities Corporation..... | 2,644,000 |
| Bear, Stearns & Co. Inc..... | 42,000 |
| Alex. Brown & Sons Incorporated..... | 42,000 |
| Cowen & Company..... | 42,000 |
| Deutsche Morgan Grenfell/C.J. Lawrence Inc..... | 42,000 |
| A.G. Edwards & Sons, Inc..... | 42,000 |
| Merrill Lynch & Co..... | 42,000 |
| Montgomery Securities..... | 42,000 |
| J. P. Morgan Securities Inc..... | 42,000 |
| Morgan Stanely & Co. Incorporated..... | 42,000 |
| Oppenheimer & Co., Inc..... | 42,000 |
| Robertson, Stephens & Company LLC..... | 42,000 |
| Smith Barney Inc..... | 42,000 |
| Adams, Harkness & Hill, Inc..... | 22,000 |
| Robert W. Baird & Co. Incorporated..... | 22,000 |
| William Blair & Company, L.L.C..... | 22,000 |
| Brean Murray, Foster Securities Inc..... | 22,000 |
| Chicago Corporation..... | 22,000 |

| | |
|---|-----------|
| EVEREN Securities Inc..... | 22,000 |
| Interstate/Johnson Lane Corporation..... | 22,000 |
| Janney Montgomery Scott Inc..... | 22,000 |
| McDonald & Company Securities, Inc..... | 22,000 |
| Parker/Hunter Incorporated..... | 22,000 |
| Pennsylvania Merchant Group Ltd..... | 22,000 |
| Rodman & Renshaw, Inc..... | 22,000 |
| Ryan, Beck & Co..... | 22,000 |
| Stifel, Nicolaus & Company, Incorporated..... | 22,000 |
| Tucker Anthony Incorporated..... | 22,000 |
| Vector Securities International, Inc..... | 22,000 |
| | ----- |
| Total..... | 3,500,000 |
| | ===== |

The Underwriting Agreement provides that the obligations of the several Underwriters to purchase the Shares offered hereby are subject to approval of certain legal matters by their counsel and to certain other conditions. If any of the Shares are purchased by the Underwriters pursuant to the Underwriting Agreement, the Underwriters are obligated to purchase all Shares (other than those covered by the over-allotment option described below).

The Company and the Selling Stockholders have been advised by the Underwriters that they propose to offer the Shares to the public initially at the price to the public set forth on the cover page of this Prospectus and to certain dealers at such price, less a concession not in excess of \$0.67 per Share. The Underwriters may allow, and such dealers may re-allow, a concession not in excess of \$0.10 per Share to certain other dealers. After this offering, the offering price and other selling terms may be changed by the Underwriters.

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Pursuant to the Underwriting Agreement, the Company and certain Selling Stockholders have granted to the Underwriters an option, exercisable not later than 30 calendar days from the date of the Underwriting Agreement, to purchase up to an aggregate of 525,000 additional Shares at the initial offering price set forth on the cover page of this Prospectus, less the underwriting discounts and commissions, solely to cover over-allotments. Up to 285,000 of the Shares covered by such option will be made available by the Company, and up to an additional 240,000 Shares in the aggregate will be made available equally by Messrs. Maher, Lanz, Ruprecht, Blomberg, Donovan and Goldfield.

To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage of the option shares as the number of Shares to be purchased by it shown in the above table bears to the total number of Shares shown in the above table, and the Selling Stockholders will be obligated, pursuant to the option, to sell such Shares to the Underwriters. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of the Shares offered hereby. If purchased, the Underwriters will sell such additional 525,000 Shares on the same terms as those on which the Shares are being offered.

The Underwriting Agreement contains covenants of indemnity among the Underwriters, the Company and the Selling Stockholders against certain civil liabilities, including liabilities under the Securities Act.

The Company, the Selling Stockholders and the executive officers and directors of the Company have each agreed that during the 180-day period after the date of this Prospectus they will not, without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation, sell, offer to sell, contract to sell, grant any option to purchase or otherwise dispose of any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, other than the Shares, except that the Company may issue shares upon the exercise of stock options granted prior to the execution of the Underwriting Agreement, and may grant additional options under its Long-Term Incentive Plan, provided that, without the prior written consent of Donaldson, Lufkin & Jenrette Securities Corporation, such options shall not be exercisable during such period.

The Representative has informed the Company and the Selling Stockholders that the Underwriters do not intend to confirm sales to any discretionary

accounts without prior specific written approval of the customer.

Prior to this offering, there has been no public market for the shares of Common Stock. The initial public offering price was negotiated among the Company, the Selling Stockholders and the Representative. Among the factors considered in determining the initial public offering price of the Common Stock, in addition to prevailing market conditions, were the Company's historical performance, estimates of the business potential and earnings prospects of the Company, an assessment of the Company's management and the consideration of the above factors in relation to market valuation of companies in related businesses.

LEGAL MATTERS

The validity of the shares of Common Stock offered hereby will be passed upon for the Company by Sachnoff & Weaver, Ltd., Chicago, Illinois. Certain legal matters in connection with the offering will be passed upon for the Underwriters by Winston & Strawn, Chicago, Illinois.

EXPERTS

The Financial Statements of the Company as of December 31, 1994 and 1995, and for each of the years in the three-year period ended December 31, 1995, have been included herein in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, appearing elsewhere herein, and upon the authority of such firm as experts in accounting and auditing.

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ADDITIONAL INFORMATION

The Company has filed with the Commission, Washington, D.C. 20549, Registration Statements, of which this Prospectus constitutes a part, on Form S-1 under the Securities Act with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statements and the exhibits and schedules to the Registration Statements. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statements and the exhibits and schedules filed as a part of the Registration Statements. Statements contained in this Prospectus concerning the contents of any contract or any other document referred to are not necessarily complete; reference is made in each instance to the copy of such contract or document filed as an exhibit to the Registration Statements. Each such statement is qualified in all respects by such reference to such exhibit. The Registration Statements, including exhibits and schedules thereto, may be inspected without charge at the Commission's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from such office after payment of fees prescribed by the Commission. The Registration Statements, including the exhibits and schedules thereto, are also available at the Commission's site on the World Wide Web at <http://www.sec.gov>. Copies of reports, proxy and information statements and other information regarding the Company are also available at the Commission's Web site.

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THE METZLER GROUP, INC.

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The Stockholders and Board of Directors
The Metzler Group, Inc.:

We have audited the accompanying balance sheets of The Metzler Group, Inc. as of December 31, 1994 and 1995, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Metzler Group, Inc. as of December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1995 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Chicago, Illinois
July 23, 1996

except for paragraph 1 of Note 11,
which is as of October 3, 1996

THE METZLER GROUP, INC.

BALANCE SHEETS

ASSETS

| | DECEMBER 31, | | JUNE 30, 1996 | PRO FORMA JUNE 30, 1996 |
|---|---------------|------------|---------------|----------------------------|
| | ----- 1994 | 1995 | (UNAUDITED) | (NOTE 2) (UNAUDITED) |
| Current assets: | | | | |
| Cash..... | \$ 63,631 | \$ 223,235 | \$ 226,200 | \$ 226,200 |
| Trade accounts receivable..... | 2,004,241 | 2,288,878 | 4,315,355 | 4,315,355 |
| Current portion of note receivable from officer. | -- | -- | 241,667 | 241,667 |
| Prepaid expenses and other..... | 10,616 | 7,939 | 144,431 | 144,431 |
| | ----- | ----- | ----- | ----- |
| Total current assets... | 2,078,488 | 2,520,052 | 4,927,653 | 4,927,653 |
| | ----- | ----- | ----- | ----- |
| Property and equipment, at cost: | | | | |
| Office furniture and equipment..... | 889,791 | 599,466 | 623,953 | 623,953 |
| Computer software..... | 107,044 | 55,109 | 58,729 | 58,729 |
| Automobiles..... | 53,846 | 64,471 | 64,471 | 64,471 |
| | ----- | ----- | ----- | ----- |
| | 1,050,681 | 719,046 | 747,153 | 747,153 |
| Less accumulated | | | | |

| | | | | |
|---|--------------------|--------------------|--------------------|--------------------|
| depreciation and amortization..... | (611,380) | (459,520) | (505,505) | (505,505) |
| Net property and equipment. | 439,301 | 259,526 | 241,648 | 241,648 |
| Note receivable from officer, less current portion..... | -- | -- | 483,333 | 483,333 |
| Total assets..... | <u>\$2,517,789</u> | <u>\$2,779,578</u> | <u>\$5,652,634</u> | <u>\$5,652,634</u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | | | |
|--|--------------------|--------------------|--------------------|--------------------|
| Current liabilities: | | | | |
| Note payable..... | \$ 355,740 | \$ 405,740 | \$ -- | \$ -- |
| Notes payable to | | | | |
| officers..... | -- | -- | 1,000,000 | 1,000,000 |
| Current portion of obligations under capital lease..... | 14,168 | 15,443 | 16,123 | 16,123 |
| Accounts payable..... | 44,205 | 177,576 | 140,560 | 140,560 |
| Accrued compensation and related costs..... | 879,889 | 1,659,290 | 1,327,528 | 1,327,528 |
| Income taxes payable..... | -- | 14,859 | 27,000 | 27,000 |
| Deferred income taxes.... | 404,000 | 160,000 | 25,000 | 77,900 |
| Distribution payable..... | -- | -- | -- | 2,540,069 |
| Other current liabilities..... | 70,154 | 37,786 | 130,915 | 130,915 |
| Total current liabilities..... | <u>1,768,156</u> | <u>2,470,694</u> | <u>2,667,126</u> | <u>5,260,095</u> |
| Obligations under capital lease, less current maturities..... | 45,887 | 30,443 | 22,208 | 22,208 |
| Deferred revenue..... | -- | 15,348 | 25,138 | 25,138 |
| Deferred income taxes..... | 49,000 | 20,000 | 155,000 | 202,100 |
| Total liabilities..... | <u>1,863,043</u> | <u>2,536,485</u> | <u>2,869,472</u> | <u>5,509,541</u> |
| Stockholders' equity: | | | | |
| Preferred stock, \$.001 par value; 3,000,000 shares authorized; no shares issued or outstanding..... | -- | -- | -- | -- |
| Common stock, \$.001 par value, 15,000,000 shares authorized; 9,519,999, 9,714,285, and 9,714,285 shares issued and outstanding in 1994, 1995, and June 30, 1996; respectively..... | 9,520 | 9,714 | 9,714 | 9,714 |
| Additional paid-in capital..... | 46,297 | 107,682 | 107,682 | 107,682 |
| Retained earnings..... | 598,929 | 125,697 | 2,665,766 | 25,697 |
| Total stockholders' equity..... | <u>654,746</u> | <u>243,093</u> | <u>2,783,162</u> | <u>143,093</u> |
| Total liabilities and stockholders' equity.. | <u>\$2,517,789</u> | <u>\$2,779,578</u> | <u>\$5,652,634</u> | <u>\$5,652,634</u> |

See accompanying Notes to Financial Statements.

| | YEARS ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|--|--------------------------|--------------|--------------|---------------------------|---------------------|
| | 1993 | 1994 | 1995 | 1995 (UNAUDITED) | 1996 (UNAUDITED) |
| Revenues..... | \$10,379,915 | \$10,419,878 | \$13,459,725 | \$ 5,625,590 | \$ 10,856,647 |
| Cost of services..... | 5,797,297 | 5,262,922 | 6,421,560 | 2,840,445 | 5,214,810 |
| Gross profit..... | 4,582,618 | 5,156,956 | 7,038,165 | 2,785,145 | 5,641,837 |
| Selling, general and administrative expenses..... | 4,266,140 | 5,326,668 | 7,650,047 | 4,023,325 | 1,403,341 |
| Operating income (loss). | 316,478 | (169,712) | (611,882) | (1,238,180) | 4,238,496 |
| Other expense (income): | | | | | |
| Interest expense..... | 33,140 | 51,111 | 50,893 | 26,769 | 20,394 |
| Interest income..... | (11,990) | (5,097) | (17,469) | (2,187) | (11,075) |
| Other, net..... | (5,870) | 26,048 | 93,926 | 73,061 | 3,108 |
| Total other expense (income)..... | 15,280 | 72,062 | 127,350 | 97,643 | 12,427 |
| Income (loss) before income tax expense (benefit)..... | 301,198 | (241,774) | (739,232) | (1,335,823) | 4,226,069 |
| Income tax expense (benefit)..... | 147,000 | (58,000) | (266,000) | (478,000) | 86,000 |
| Net income (loss)..... | \$ 154,198 | \$ (183,774) | \$ (473,232) | \$ (857,823) | \$ 4,140,069 |
| Pro forma income data (unaudited) (note 2): | | | | | |
| Net income (loss) as reported..... | | | \$ (473,232) | | \$ 4,140,069 |
| Pro forma adjustments. | | | 1,665,176 | | (2,216,104) |
| Pro forma net income..... | | | 1,191,944 | | 1,923,965 |
| Pro forma net income per share..... | | | \$ 0.12 | | \$ 0.20 |

See accompanying Notes to Financial Statements.

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THE METZLER GROUP, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1993, 1994, 1995
AND THE SIX MONTHS ENDED JUNE 30, 1996 (UNAUDITED)

| | PREFERRED STOCK | | COMMON STOCK | | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS | TOTAL STOCKHOLDERS' EQUITY |
|---|-----------------|--------|--------------|---------|----------------------------------|----------------------|----------------------------------|
| | SHARES | AMOUNT | SHARES | AMOUNT | | | |
| Balance at December 31, 1992..... | -- | \$ -- | 1,010 | \$1,010 | \$122,162 | \$ 628,505 | \$ 751,677 |
| Retroactive restatement for a 9,714.285 for 1 stock split in the form of a common stock dividend effective September 20, 1996..... | -- | -- | 9,810,418 | 9,810 | (9,810) | -- | -- |
| As restated..... | -- | -- | 9,811,428 | 9,811 | 113,361 | 628,505 | 751,677 |
| Net income..... | -- | -- | -- | -- | -- | 154,198 | 154,198 |
| Purchase of common stock..... | -- | -- | (194,286) | (194) | (45,988) | -- | (46,182) |

| | | | | | | | |
|--|----|-------|-----------|---------|-----------|-------------|-------------|
| Balance at | | | | | | | |
| December 31, 1993..... | -- | -- | 9,617,142 | 9,617 | 67,373 | 782,703 | 859,693 |
| Net loss..... | -- | -- | -- | -- | -- | (183,774) | (183,774) |
| Purchase of common stock..... | -- | -- | (485,714) | (486) | (140,662) | -- | (141,148) |
| Issuance of common stock..... | -- | -- | 388,571 | 389 | 119,586 | -- | 119,975 |
| Balance at | | | | | | | |
| December 31, 1994..... | -- | -- | 9,519,999 | 9,520 | 46,297 | 598,929 | 654,746 |
| Net loss..... | -- | -- | -- | -- | -- | (473,232) | (473,232) |
| Issuance of common stock..... | -- | -- | 194,286 | 194 | 61,385 | -- | 61,579 |
| Balance at | | | | | | | |
| December 31, 1995..... | -- | -- | 9,714,285 | 9,714 | 107,682 | 125,697 | 243,093 |
| Net income (unaudited).. | -- | -- | -- | -- | -- | 4,140,069 | 4,140,069 |
| S-Corporation distributions (unaudited)..... | -- | -- | -- | -- | -- | (1,600,000) | (1,600,000) |
| Balance at June 30, 1996 (unaudited)..... | -- | \$ -- | 9,714,285 | \$9,714 | \$107,682 | \$2,665,766 | \$2,783,162 |

See accompanying Notes to Financial Statements.

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THE METZLER GROUP, INC.

STATEMENTS OF CASH FLOWS

| | YEARS ENDED DECEMBER 31, | | | SIX MONTHS ENDED JUNE 30, | |
|--|--------------------------|--------------|--------------|---------------------------|--------------|
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| | | | | (UNAUDITED) | |
| Cash flows from operating activities: | | | | | |
| Net income (loss)..... | \$154,198 | \$ (183,774) | \$ (473,232) | \$ (857,823) | \$ 4,140,069 |
| Adjustments to reconcile net income (loss) to net cash provided by operating expenses: | | | | | |
| Depreciation and amortization..... | 195,678 | 186,297 | 136,024 | 47,775 | 49,571 |
| Loss on sale of property and equipment..... | -- | 25,246 | 93,622 | 73,411 | 665 |
| Deferred income taxes..... | 118,000 | (80,000) | (273,000) | (573,000) | -- |
| Changes in assets and liabilities: | | | | | |
| Receivables..... | (719,972) | 695,518 | (284,637) | (802,623) | (2,026,477) |
| Prepaid expenses... | 856 | (10,616) | 2,677 | (41,969) | (136,492) |
| Salary advances to officer..... | (47,502) | 57,502 | -- | -- | -- |
| Advances to affiliate..... | (72,842) | 72,842 | -- | -- | -- |
| Accounts payable... | 26,898 | (19,726) | 133,371 | 68,923 | (37,016) |
| Accrued compensation and related costs..... | 459,558 | (474,210) | 779,401 | 2,195,865 | (331,762) |
| Other accrued liabilities..... | 12,569 | (15,330) | (17,509) | 120,435 | 105,270 |
| Deferred revenues.. | (9,299) | -- | 15,348 | 1,550 | 9,790 |
| Net cash provided by operating activities... | 118,142 | 253,749 | 112,065 | 232,544 | 1,773,618 |
| Cash flows from | | | | | |

| | | | | | |
|---|-----------|-----------|------------|------------|-------------|
| investing activities: | | | | | |
| Purchase of property and equipment..... | (58,101) | (45,081) | (51,329) | (27,565) | (32,358) |
| Proceeds from sale of property and equipment..... | -- | 20,500 | 1,458 | 1,458 | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Net cash used in investing activities... | (58,101) | (24,581) | (49,871) | (26,107) | (32,358) |
| | ----- | ----- | ----- | ----- | ----- |
| Cash flows from financing activities: | | | | | |
| Purchase of common stock..... | (46,182) | (141,148) | -- | -- | -- |
| Sale of common stock.. | -- | 119,975 | 61,579 | 61,579 | -- |
| Repayment of note payable..... | (225,000) | (506,260) | (200,000) | -- | (405,740) |
| Issuance of note payable..... | 215,000 | 372,000 | 250,000 | 248,272 | -- |
| Issuance of notes payable to officers.. | -- | -- | -- | -- | 1,000,000 |
| Note receivable from officer..... | -- | -- | -- | -- | (725,000) |
| Distributions to stockholders..... | -- | -- | -- | -- | (1,600,000) |
| Payments for obligation under capital lease..... | (2,809) | (12,999) | (14,169) | (6,932) | (7,555) |
| | ----- | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities..... | (58,991) | (168,432) | 97,410 | 302,919 | (1,738,295) |
| | ----- | ----- | ----- | ----- | ----- |
| Net increase in cash.... | 1,050 | 60,736 | 159,604 | 509,356 | 2,965 |
| Cash at beginning of year..... | 1,845 | 2,895 | 63,631 | 63,631 | 223,235 |
| | ----- | ----- | ----- | ----- | ----- |
| Cash at end of year..... | \$ 2,895 | \$ 63,631 | \$ 223,235 | \$ 572,987 | \$ 226,200 |
| | ===== | ===== | ===== | ===== | ===== |
| Noncash investing activities: | | | | | |
| Acquisition of equipment under capital lease..... | \$ 75,863 | \$ -- | \$ -- | \$ -- | \$ -- |
| Exchange of like-kind property..... | -- | -- | 28,500 | -- | -- |
| Noncash financing activity--issuance of long-term debt obligation for repurchase of common stock..... | \$ 46,182 | \$ -- | \$ -- | \$ -- | \$ -- |
| | ===== | ===== | ===== | ===== | ===== |
| Supplemental information: | | | | | |
| Interest payments.... | \$ 33,140 | \$ 48,435 | \$ 51,119 | \$ 28,992 | \$ 20,621 |
| Income tax payments... | \$ 11,454 | \$ 52,226 | \$ 7,830 | \$ 10,250 | \$ 2,400 |
| | ===== | ===== | ===== | ===== | ===== |

See accompanying Notes to Financial Statements.

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THE METZLER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

(INFORMATION AS OF JUNE 30, 1996 AND FOR THE SIX MONTHS ENDED JUNE 30, 1995 AND 1996 IS UNAUDITED.)

1. DESCRIPTION OF BUSINESS

The Metzler Group, Inc. (the "Company") is a leading nationwide provider of consulting services to electric utilities and other energy-related businesses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company recognizes revenues as the related services are performed.

Property and Equipment

Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives, ranging from three to seven years, of the various classes of property and equipment. Depreciation related to capital lease obligations is amortized over the shorter of their useful lives or the term of the related leases by use of the straight-line method.

Income Taxes

Income taxes, including pro forma calculations, are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109). Under the asset and liability method of Statement 109, 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.

Prior to January 1, 1996, the Company had operated as a C-corporation. Effective January 1, 1996, the stockholders of the Company elected to be taxed under Subchapter S of the Internal Revenue Code. Federal income taxes are the responsibility of the Company's stockholders as are certain state income taxes. As of the effective date of the election, the Company is responsible for Federal built-in-gain taxes to the extent applicable. Accordingly, the statement of earnings for the six months ended June 30, 1996 provides for such taxes. The S-corporation election will terminate in connection with the consummation of the initial public offering of the Company's common stock.

Prior to the consummation of its initial public offering, the Company will declare a S-corporation dividend to its existing stockholders in an amount representing all undistributed earnings of the Company from January 1, 1996 through the termination of the Company's S-corporation status resulting from the initial public offering. The S-corporation dividend is estimated to be approximately \$2,540,000 as of June 30, 1996.

In addition, at the effective date of termination of the S-corporation election, deferred income taxes of approximately \$100,000 (unaudited) will be reinstated as a charge to earnings representing the tax effect of cumulative timing differences, primarily related to accrued compensation and differing depreciation methodologies at that time.

The pro forma balance sheet as of June 30, 1996 reflects the S-corporation dividend and the reinstatement of deferred income taxes as discussed in the previous two paragraphs.

Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments approximates fair value because of the short maturity of those instruments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and

Interim Financial Information

The financial statements and related notes thereto as of June 30, 1996 and for the six months ended June 30, 1995 and 1996 are unaudited and have been prepared on the same basis as the audited financial statements included herein. In the opinion of management, such unaudited financial statements include all normal recurring adjustments necessary to present fairly the information set forth herein.

Pro Forma Net Income Per Share

Pro forma net income per common and common equivalent share is computed based on the weighted average of 9,781,051 common and common equivalent shares outstanding during the year ended December 31, 1995 and 9,803,202 common and common equivalent shares outstanding during the six month period ended June 30, 1996.

Net income (loss) per share is computed using the weighted average number of shares of common stock and dilutive common equivalent shares resulting from the grant of 355,666 common stock options on June 30, 1996 (using the treasury stock method). Pursuant to Securities and Exchange Commission Staff Accounting Bulletin No. 83, common and common equivalent shares issued by the Company during the twelve-month period prior to the proposed initial public offering have been included in the calculation of common and common equivalent shares using the treasury stock method and the initial public offering price per share as if they were outstanding for all periods presented.

The pro forma adjustments during the year ended December 31, 1995 and the six months ended June 30, 1996 reflect the impact of a compensation plan effective July 1, 1996. The pro forma adjustments for the year ended December 31, 1995 include a decrease to officer compensation expense of \$1,665,176, net of income tax expense of \$1,110,117. The pro forma adjustments for the six months ended June 30, 1996 include an increase to officer compensation expense of \$611,676, net of income tax benefits of \$407,784.

The pro forma adjustments for the six months ended June 30, 1996 include federal and the additional state income tax expense of \$1,196,644 that would have been required had the Company not made the S-corporation election effective January 1, 1996.

3. OTHER EXPENSE (INCOME)

Included in other expense (income) in the accompanying statements of operations are losses on sale of property and equipment of \$25,246 and \$93,622 during the years ended December 31, 1994 and 1995, respectively.

4. NOTE PAYABLE

The Company has a line of credit with a bank which provides for maximum borrowings limited to 65% of eligible accounts receivable. At December 31, 1994 and 1995 the line of credit had maximum borrowing of \$800,000 and bore interest at the bank's prime rate (8.5% at December 31, 1994 and 1995) plus 1%. Outstanding borrowings under the line of credit were \$355,740 and \$405,740 at December 31, 1994 and 1995, respectively.

During 1996, the Company entered into a new line of credit which expires on December 31, 1996 and provides for maximum borrowings of \$1,200,000. Borrowings are limited to 65% of eligible accounts receivable and bear interest at the bank's prime rate (8.25% at June 30, 1996) plus 0.5%.

Under its credit agreement, the Company is required to maintain tangible net worth, debt-to-equity and cash flow ratios. The Company's borrowings are secured by the Company's accounts receivable and equipment.

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THE METZLER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

5. LEASE COMMITMENTS

The Company leases its office facilities and certain equipment under operating and capital lease arrangements which expire at various dates through

January 31, 2002.

Operating Leases

The operating lease of the office facilities includes scheduled base rent increases over the term of the lease. The total amount of the base rent payments is being charged to expense on the straight-line method over the term of the lease. The Company has recorded a deferred credit to reflect the excess of rent expense over cash payments since the inception of the lease. The lease provides for monthly payments of real estate taxes, insurance and other operating expenses applicable to the property. In addition, the Company leases equipment under a noncancelable operating lease.

Future minimum annual lease payments, for the years subsequent to 1995 and in the aggregate, are as follows:

| YEAR ENDING DECEMBER 31 | AMOUNT |
|----------------------------|-------------|
| 1996..... | \$ 188,863 |
| 1997..... | 194,207 |
| 1998..... | 199,463 |
| 1999..... | 205,353 |
| 2000..... | 208,300 |
| Thereafter..... | 232,472 |
| | ----- |
| | \$1,228,658 |
| | ===== |

Rent expense for operating leases entered into by the Company and charged to operations amounted to the following:

| PERIOD ENDED | AMOUNT |
|--------------------------------|------------|
| December 31, 1993..... | \$ 155,444 |
| December 31, 1994..... | 155,542 |
| December 31, 1995..... | 155,598 |
| June 30, 1995 (unaudited)..... | 77,800 |
| June 30, 1996 (unaudited)..... | 90,431 |

Capital Lease

The Company leases equipment which is classified within the Company's financial statements as a capital lease. Included in the property, plant and equipment in the accompanying balance sheets is the following asset held under capital lease:

| | DECEMBER 31, | | JUNE 30, |
|--|--------------|----------|-------------|
| | 1994 | 1995 | 1996 |
| | | | (UNAUDITED) |
| Property and equipment..... | \$75,863 | \$75,863 | \$75,863 |
| Less accumulated amortization..... | 22,759 | 37,932 | 45,518 |
| | ----- | ----- | ----- |
| Asset held under capital lease, net..... | \$53,104 | \$37,931 | \$30,345 |
| | ===== | ===== | ===== |

The future minimum annual lease payments under the noncancelable capital lease are as follows:

| YEAR ENDING DECEMBER 31 | AMOUNT |
|--|----------|
| 1996..... | \$18,808 |
| 1997..... | 18,808 |
| 1998..... | 14,105 |
| | ----- |
| Net minimum rentals..... | 51,721 |
| Less interest portion..... | (5,835) |
| | ----- |
| Present value of net minimum rentals at December 31, 1995..... | \$45,886 |
| | ===== |

6. INCOME TAX EXPENSE (BENEFIT)

Income tax expense (benefit) consists of the following:

| | DECEMBER 31, | | | JUNE 30, | |
|---|--------------|-------------|--------------|--------------|-------------|
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| | | | | | (UNAUDITED) |
| Federal: | | | | | |
| Current..... | \$ 25,000 | \$ 9,000 | \$ -- | \$ -- | \$25,000 |
| Deferred..... | 94,000 | (64,000) | (218,000) | (370,000) | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Total..... | 119,000 | (55,000) | (218,000) | (370,000) | 25,000 |
| | ----- | ----- | ----- | ----- | ----- |
| State: | | | | | |
| Current..... | 4,000 | 13,000 | 7,000 | 7,000 | 61,000 |
| Deferred..... | 24,000 | (16,000) | (55,000) | (115,000) | -- |
| | ----- | ----- | ----- | ----- | ----- |
| Total..... | 28,000 | (3,000) | (48,000) | (108,000) | 61,000 |
| | ----- | ----- | ----- | ----- | ----- |
| Total federal and state income tax expense (benefit)..... | \$147,000 | \$ (58,000) | \$ (266,000) | \$ (478,000) | \$86,000 |
| | ===== | ===== | ===== | ===== | ===== |

Income tax expense (benefit) differs from the amounts estimated by applying the statutory income tax rates to income (loss) before income tax expense (benefit) as follows:

| | DECEMBER 31, | | | JUNE 30, | |
|--|--------------|-------------|--------------|--------------|-------------|
| | 1993 | 1994 | 1995 | 1995 | 1996 |
| | | | | | (UNAUDITED) |
| Federal tax (benefit) at statutory rate..... | \$106,000 | \$ (85,000) | \$ (258,000) | \$ (451,000) | \$ -- |
| State tax (benefit) at statutory rate..... | 18,000 | (2,000) | (35,000) | (75,000) | 61,000 |
| Effect of nondeductible expenses..... | 14,000 | 29,000 | 27,000 | 15,000 | -- |
| Other..... | 9,000 | -- | -- | 33,000 | 25,000 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$147,000 | \$ (58,000) | \$ (266,000) | \$ (478,000) | \$86,000 |
| | ===== | ===== | ===== | ===== | ===== |

THE METZLER GROUP, INC

NOTES TO 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 effect of these differences are as follows:

| | DECEMBER 31, | |
|--|--------------|---------|
| | ----- | ----- |
| | 1994 | 1995 |
| Deferred tax assets: | | |
| Items presented on an accrual basis for financial purposes reported on a cash basis for income tax purposes: | | |
| Accounts payable..... | \$ 18,000 | 71,000 |
| Accrued expenses..... | 352,000 | 664,000 |
| Deferred revenues..... | -- | 6,000 |
| Accrued rents..... | 28,000 | 15,000 |
| | ----- | ----- |
| Total gross deferred tax assets..... | 398,000 | 756,000 |
| Less valuation allowance..... | -- | -- |
| | ----- | ----- |
| Net deferred tax assets..... | 398,000 | 756,000 |
| | ----- | ----- |
| Deferred tax liabilities; | | |
| Depreciation--resulting from the difference between using straight-line and accelerated methods..... | 49,000 | 20,000 |
| Items presented on an accrual basis for financial purposes reported on a cash basis for tax purposes: | | |
| Accounts receivable and accrued billings..... | 802,000 | 916,000 |
| | ----- | ----- |
| Total gross deferred tax liabilities..... | 851,000 | 936,000 |
| | ----- | ----- |
| Net deferred tax liability..... | \$453,000 | 180,000 |
| | ----- | ----- |

At June 30, 1996, the Company has net deferred tax liabilities of \$180,000 (unaudited) related to built-in-gain taxes of the S-corporation.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based upon historical results of the Company's operations, management believes it is more likely than not that the Company will realize the benefits of the deductible differences.

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THE METZLER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

7. EMPLOYEE BENEFIT PLANS

The Company has a Profit Sharing and Savings Plan and Trust ("Savings Plan"). The Savings Plan covers employees after the later of the completion of one year of service and reaching 21 years of age. Participants may contribute up to 15% of their eligible compensation. The Company, at its discretion, matches participant contributions as defined within the Savings Plan. In addition, the Company, at its discretion, makes profit sharing contributions. Company contributions to the Savings Plan which were charged to operations were the following:

| PERIOD ENDED | TOTAL |
|------------------------|-----------|
| December 31, 1993..... | \$230,092 |

| | |
|--------------------------------|---------|
| December 31, 1994..... | 168,203 |
| December 31, 1995..... | 231,477 |
| June 30, 1995 (unaudited)..... | 72,981 |
| June 30, 1996 (unaudited)..... | 175,600 |

8. LONG-TERM INCENTIVE PLAN (UNAUDITED)

On June 30, 1996, the Company adopted a Long-Term Incentive Plan which provides for common stock, common stock-based, and other performance incentives to employees, consultants, directors, advisors, and independent contractors of the Company. The maximum number of shares of common stock which may be issued and sold under the plan is 1,300,000 shares. On June 30, 1996, the Company has granted 355,666 options at an exercise price of \$12 per share which was equal to the estimated fair market value of common stock at the date of grant. As of June 30, 1996 no options were exercisable.

9. RELATED-PARTY TRANSACTIONS

During 1993 and 1994 the Company paid expenses and collected revenues on behalf of an affiliated company. Amounts paid by the Company, net of amounts collected, were reimbursed by the affiliate. The affiliate's sole shareholder was also a shareholder of the Company.

During January 1996, the Company entered into note payable agreements with two officers. The notes, each with a principal amount of \$500,000, bear interest at a rate of 10% and mature on December 31, 1996.

During May 1996, the Company advanced an officer \$725,000 as part of an employment agreement and entered into a note receivable agreement with the officer. The note receivable bears interest at a rate of 6% and the terms require payment in three equal annual installments beginning December 31, 1996. The note may be repaid in the form of services rendered to the Company by the officer. (See Note 11).

10. REVENUES AND ACCOUNTS RECEIVABLE FROM SIGNIFICANT CUSTOMERS

The Company's customers are located throughout the United States and Canada. In 1993, 1994, and 1995, and for the six months ended June 30, 1995 (unaudited) and June 30, 1996 (unaudited), the Company's five largest clients accounted for approximately, 43%, 58%, 55%, 52% and 61% of the Company's total revenues, respectively. One customer accounted for 26%, 15%, and 29% of the Company's accounts receivable balance at December 31, 1994, 1995, and June 30, 1996 (unaudited), respectively.

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THE METZLER GROUP, INC.

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

11. SUBSEQUENT EVENTS

Board of Director Actions

During September and October 1996, Metzler & Associates, Inc. amended its articles of incorporation effecting a 9,714.285 for 1 stock split of the Company's common stock and an increase in the number of authorized shares of the Company's common stock to 15,000,000 shares and filed articles of merger to merge Metzler & Associates, Inc. with a newly formed subsidiary of The Metzler Group, Inc., whereby Metzler & Associates, Inc. became a wholly-owned subsidiary of The Metzler Group, Inc. Also in October 1996, The Metzler Group, Inc. filed an amended and restated certificate of incorporation authorizing 3,000,000 shares of preferred stock of the Company. The accompanying financial statements and notes thereto have been adjusted retroactively to give effect to the aforementioned actions.

Stock Redemption Agreement (unaudited)

During July 1996, the Company entered into an agreement with its founding shareholder, who, at that time, was the beneficial owner of 15% of the Company's common stock, to redeem 1,714,285 shares of the shareholder's common stock. The agreement calls for the Company to issue the shareholder a

promissory note for \$7,975,000. The promissory note is to be repaid within thirty days after the effective date of the Offering. The redemption value per share was negotiated by the Company's other executive officers, who collectively owned the remaining 85% of the Company's common stock at the time of the agreement.

Amendment to Note Receivable From Officer

In September 1996, the note receivable from an officer described in Note 9 was amended. As amended, the note is due and payable immediately following the closing of the Company's initial public offering.

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NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE SHARES BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING THE OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANYTIME SUBSEQUENT TO ITS DATE.

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UNTIL OCTOBER 29, 1996 (25 DAYS AFTER THE COMMENCEMENT OF THIS OFFERING), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

3,500,000 SHARES

LOGO

COMMON STOCK

PROSPECTUS

DONALDSON, LUFKIN & JENRETTE
SECURITIES CORPORATION

OCTOBER 4, 1996

