Huron Consulting Group Inc.
Form 10-Q
November 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2013

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-50976

HURON CONSULTING GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware	**01-0666114**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**

550 West Van Buren Street

Chicago, Illinois

60607

(Address of principal executive offices)

(Zip Code)

(312) 583-8700

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

As of October 30, 2013, 23,243,551 shares of the registrant s common stock, par value $0.01 per share, were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HURON CONSULTING GROUP INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 30,781	$ 25,162
Receivables from clients, net	82,007	97,510
Unbilled services, net	82,381	47,232
Income tax receivable	2,765	192
Deferred income taxes, net	13,290	14,751
Prepaid expenses and other current assets	21,877	15,525
Total current assets	233,101	200,372
Property and equipment, net	35,968	33,805
Other non-current assets	16,614	15,322
Intangible assets, net	14,815	18,879
Goodwill	519,514	519,522
Total assets	$ 820,012	$ 787,900
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 8,620	$ 8,461
Accrued expenses	16,447	17,692
Accrued payroll and related benefits	61,956	61,672
Bank borrowings, current portion	25,000	-
Accrued consideration for business acquisitions, current portion	5,103	5,640
Income tax payable	221	7,872
Deferred revenues	13,114	15,388
Total current liabilities	130,461	116,725
Non-current liabilities:		

Deferred compensation and other liabilities		4,892		6,973
Bank borrowings, net of current portion		150,000		192,500
Deferred lease incentives		10,163		6,936
Deferred income taxes, net		20,613		14,560
Accrued consideration for business acquisitions, net of current portion		-		4,885
Total non-current liabilities		185,668		225,854
Commitments and Contingencies				
Stockholders equity				
Common stock; $0.01 par value; 500,000,000 shares authorized; 25,224,317 and 24,793,327 shares issued at September 30, 2013 and December 31, 2012, respectively		244		240
Treasury stock, at cost, 1,980,776 and 1,880,809 shares at September 30, 2013 and December 31, 2012, respectively		(87,338)		(83,715)
Additional paid-in capital		438,135		420,825
Retained earnings		153,643		109,330
Accumulated other comprehensive loss		(801)		(1,359)
Total stockholders equity		503,883		445,321
Total liabilities and stockholders equity	$	820,012	$	787,900

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

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HURON CONSULTING GROUP INC.

CONSOLIDATED STATEMENTS OF EARNINGS AND OTHER COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Revenues and reimbursable expenses:				
Revenues	$ 174,735	$ 161,888	$ 509,178	$ 445,196
Reimbursable expenses	17,542	13,470	51,001	41,820
Total revenues and reimbursable expenses	192,277	175,358	560,179	487,016
Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses):				
Direct costs	106,087	89,283	315,084	277,942
Amortization of intangible assets and software development costs	675	787	2,007	3,071
Reimbursable expenses	17,531	13,405	51,000	41,808
Total direct costs and reimbursable expenses	124,293	103,475	368,091	322,821
Operating expenses and other operating gains:				
Selling, general and administrative expenses	37,197	31,095	100,307	92,437
Restructuring charges	-	2,194	596	3,253
Restatement related expenses	-	68	-	1,785
Litigation settlement (gain) loss	(5,300)	-	(6,450)	1,150
Depreciation and amortization	4,968	4,879	14,624	13,585
Goodwill impairment charge	-	13,083	-	13,083
Total operating expenses and other operating gains	36,865	51,319	109,077	125,293
Operating income	31,119	20,564	83,011	38,902
Other income (expense), net:				
Interest expense, net of interest income	(1,531)	(2,312)	(5,100)	(6,193)
Other income (expense), net	104	136	(35)	306
Total other expense, net	(1,427)	(2,176)	(5,135)	(5,887)
Income from continuing operations before income tax expense	29,692	18,388	77,876	33,015
Income tax expense	12,531	7,972	33,532	15,707

Net income from continuing operations		17,161		10,416		44,344		17,308
Income (loss) from discontinued operations, net of tax		10		47		(31)		518
Net income	$	17,171	$	10,463	$	44,313	$	17,826
Net earnings per basic share:								
Net income from continuing operations	$	0.77	$	0.47	$	1.99	$	0.79
Income from discontinued operations, net of tax		-		0.01		-		0.02
Net income	$	0.77	$	0.48	$	1.99	$	0.81
Net earnings per diluted share:								
Net income from continuing operations	$	0.75	$	0.47	$	1.95	$	0.78
Income from discontinued operations, net of tax		-		-		-		0.02
Net income	$	0.75	$	0.47	$	1.95	$	0.80
Weighted average shares used in calculating earnings per share:								
Basic		22,386		21,950		22,293		21,881
Diluted		22,873		22,326		22,712		22,247
Comprehensive income:								
Net income	$	17,171	$	10,463	$	44,313	$	17,826
Foreign currency translation gain, net of tax		1,025		496		119		358
Unrealized gain (loss) on cash flow hedging instruments, net of tax		(245)		(144)		439		(336)
Other comprehensive income		780		352		558		22
Comprehensive income	$	17,951	$	10,815	$	44,871	$	17,848

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

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HURON CONSULTING GROUP INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive Income (Loss)	Stockholders
	Shares	Amount	Shares	Amount	Capital	Earnings		Equity
Balance at December 31, 2012	23,904,125	$ 240	(1,889,465)	$ (83,715)	$ 420,825	$ 109,330	$ (1,359)	$ 445,321
Comprehensive income						44,313	558	44,871
Issuance of common stock in connection with:								
Restricted stock awards, net of cancellations	447,988	4	(80,569)	(2,863)	2,859			-
Exercise of stock options	26,294	-			39			39
Share-based compensation					13,280			13,280
Shares redeemed for employee tax withholdings			(20,426)	(760)				(760)
Income tax benefit on share-based compensation					1,132			1,132
Balance at September 30, 2013	24,378,407	$ 244	(1,990,460)	$ (87,338)	$ 438,135	$ 153,643	$ (801)	$ 503,883

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

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HURON CONSULTING GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash flows from operating activities:		
Net income	$ 44,313	$ 17,826
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,631	18,994
Share-based compensation	12,692	11,183
Allowances for doubtful accounts and unbilled services	3,153	1,723
Deferred income taxes	7,062	2,458
Goodwill impairment charge	-	13,083
Changes in operating assets and liabilities, net of businesses acquired:		
(Increase) decrease in receivables from clients	13,200	9,532
(Increase) decrease in unbilled services	(36,083)	(10,698)
(Increase) decrease in current income tax receivable / payable, net	(10,218)	19,502
(Increase) decrease in other assets	(1,304)	2,738
Increase (decrease) in accounts payable and accrued liabilities	(2,018)	(4,783)
Increase (decrease) in accrued payroll and related benefits	891	(24,092)
Increase (decrease) in deferred revenues	(3,028)	(14,616)
Net cash provided by operating activities	45,291	42,850
Cash flows from investing activities:		
Purchases of property and equipment, net	(14,383)	(14,344)
Net investment in life insurance policies	(842)	(569)
Purchases of businesses, net of cash acquired	(297)	(53,832)
Capitalization of internally developed software	(1,207)	-
Proceeds from note receivable	438	-
Net cash used in investing activities	(16,291)	(68,745)
Cash flows from financing activities:		
Proceeds from exercise of stock options	39	30
Shares redeemed for employee tax withholdings	(760)	(3,874)
Tax benefit from share-based compensation	1,374	1,325
Proceeds from borrowings under credit facility	83,500	244,000

Repayments on credit facility		(101,000)		(215,000)
Payments for debt issue costs		(1,155)		(2,482)
Payments of capital lease obligations		-		(8)
Deferred acquisition payment		(5,356)		-
Net cash (used in) provided by financing activities		(23,358)		23,991
Effect of exchange rate changes on cash		(23)		36
Net increase (decrease) in cash and cash equivalents		5,619		(1,868)
Cash and cash equivalents at beginning of the period		25,162		5,080
Cash and cash equivalents at end of the period	$	30,781	$	3,212
Supplemental disclosure of cash flow information:				
Non-cash financing activities:				
Deferred payments related to business acquisitions		-	$	10,272

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

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

1. Description of Business

Huron Consulting Group is a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, reduce costs, leverage technology, process and review large amounts of complex data, address regulatory changes, recover from distress and stimulate growth. Our professionals employ their expertise in administration, management, finance, operations, strategy and technology to provide our clients with specialized analyses and customized advice and solutions that are tailored to address each client s particular challenges and opportunities to deliver sustainable and measurable results. We provide consulting services to a wide variety of both financially sound and distressed organizations, including healthcare organizations, leading academic institutions, Fortune 500 companies, governmental entities and law firms.

2. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements reflect the financial position, results of operations and cash flows as of and for the three and nine months ended September 30, 2013 and 2012. These financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q. Accordingly, these financial statements do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual financial statements. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair statement of our financial position, results of operations and cash flows for the interim periods presented in conformity with GAAP. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto for the year ended December 31, 2012 included in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2013 and June 30, 2013.

Certain amounts reported in the previous year have been reclassified to conform to the 2013 presentation. Our results for any interim period are not necessarily indicative of results for a full year or any other interim period.

In the second quarter of 2013, we identified a $1.1 million error in stock-based compensation expense resulting from the use of the straight-line attribution method for performance awards with graded vesting features granted in prior periods. The $1.1 million pretax adjustment, which resulted in a $0.9 million increase in Direct costs and a $0.2 million increase in Selling, general and administrative expense, with a corresponding $1.1 million increase in Additional paid-in capital, represents the cumulative error related to all prior period financial statements beginning with the first quarter of 2010 through the first quarter of 2013. After consideration of both quantitative and qualitative factors, we concluded that our previously issued annual and quarterly financial statements for the years 2010, 2011, 2012 and the first quarter of 2013 were not materially misstated, and the effect of recognizing this adjustment during the second quarter of 2013 was not material for the period then ended and is not expected to be material for full year 2013 results.

3. New Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This guidance requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, be presented in the financial statements as either a reduction to a deferred tax asset or separately as a liability depending on the existence, availability and/or use of an operating loss carryforward, a similar tax loss, or a tax credit carryforward. This guidance will be effective for the Company beginning in the first quarter of 2014. We do not expect the adoption of ASU 2013-11 to impact our consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, Parent s Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity, which amends current accounting guidance on foreign currency matters. This guidance requires that the entire amount of a cumulative translation adjustment related to an entity s investment in a foreign entity should be released when there has been a: (i) sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity, (ii) loss of a controlling financial interest in an investment in a foreign entity, and (iii) step acquisition for a foreign entity. This guidance will be effective for the Company beginning in the first quarter of 2014. We do not expect the adoption of ASU 2013-05 to have a material impact on our consolidated financial statements.

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends current accounting guidance on comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amounts is required. The Company adopted this guidance effective January 1, 2013. The guidance required a change in disclosure only and did not have any effect on the Company s consolidated financial statements.

4. Discontinued Operations

In recent years, we have undertaken several separate initiatives to divest certain practices within the Huron Financial segment in order to enable us to devote more of our energy and financial resources to the remaining businesses of the Company where we have a more substantial market presence. Most recently, on December 30, 2011, we sold the Accounting Advisory (AA) practice to a group of investors including the managing director of the practice at the time and recognized a loss of $1.9 million in connection with the sale.

The operating results of AA are reported as discontinued operations. All other operations of the business are considered continuing operations. Summarized operating results of discontinued operations are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues	$ 24	$	$ 57	$ 683
Income (loss) from discontinued operations before income tax expense	$ 18	$ 78	$ (51)	$ 836
Net income (loss) from discontinued operations	$ 10	$ 47	$ (31)	$ 518

There were no significant assets or liabilities related to discontinued operations in the Consolidated Balance Sheets as of September 30, 2013 or December 31, 2012.

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

5. Goodwill and Intangible Assets

The table below sets forth the changes in the carrying amount of goodwill by segment for the nine months ended September 30, 2013.

	Current Segments				
Former Segments	**Huron Healthcare**	**Huron Legal**	**Huron Education and Life Sciences**	**Huron Financial**	**Total**
Health and Education Consulting	$ 355,880	$	$ 94,601	$	$ 450,481
Legal Consulting		52,947			52,947
Financial Consulting				159,077	159,077
Total new alignment as of December 31, 2012	355,880	52,947	94,601	159,077	662,505
Accumulated impairment				(142,983)	(142,983)
Goodwill, net as of December 31, 2012	355,880	52,947	94,601	16,094	519,522
Foreign currency translation		(8)			(8)
Goodwill, net as of September 30, 2013	$ 355,880	$ 52,939	$ 94,601	$ 16,094	$ 519,514

First Quarter 2013 Goodwill Reassignment

During the first quarter of 2013, we changed our internal financial reporting structure. Under the new structure, our former Health and Education Consulting segment became two separate segments: Huron Healthcare and Huron Education and Life Sciences. In addition, certain immaterial practices which were historically part of our Health and Education Consulting segment were combined and disclosed in our All Other segment. The Legal Consulting segment is now referred to as Huron Legal and the Financial Consulting segment is now referred to as Huron Financial. The structure of the Legal Consulting and Financial Consulting segments did not change. As a result of these changes, we now have five reporting segments, which are the same as our operating segments and reporting units.

In accordance with ASC 350, Intangibles Goodwill and Other, we reassigned the goodwill balance of the Health and Education Consulting segment using the relative fair value approach based on an evaluation of expected future discounted cash flows. Based on this relative fair value analysis, we reassigned $355.9 million of goodwill to Huron Healthcare and $94.6 million of goodwill to Huron Education and Life Sciences.

In conjunction with the goodwill reassignment, we performed the first step of the goodwill impairment test for the goodwill balances within our Huron Healthcare and Huron Education and Life Sciences reporting units as of January 2, 2013. Based on the result of the first step of the goodwill impairment test, we determined that the fair values of our Huron Healthcare and Huron Education and Life Sciences reporting units exceeded their carrying values. Since the fair values of both reporting units exceeded their carrying values, the second step of the goodwill impairment test was not necessary.

Third Quarter 2012 Goodwill Impairment Charge

In the second quarter of 2012, our Huron Financial segment leadership undertook several initiatives intended to improve the reporting unit s financial performance. While the reporting unit s third quarter financial results improved over the second quarter results, the progress of the financial, operational, and business development improvements was not in line with our expectations, causing us to believe that the likely time frame to improve the reporting unit s performance would be longer than originally anticipated. Therefore, we concluded that the carrying value of the reporting unit likely exceeded its fair value and, in connection with the preparation of our financial statements for the quarter ended September 30, 2012, we performed an interim impairment test.

Our goodwill impairment test was performed using a quantitative two-step process. In the first step, we compared the fair value of the Huron Financial segment with its net book value (or carrying amount), including goodwill. In estimating the fair value of the Huron Financial segment, we relied on a combination of the income approach and the market approach, utilizing the guideline company method, with a fifty-fifty weighting. Based on the result of the first step, we determined that the fair value of our Huron Financial segment was less than its carrying value as of September 30, 2012 and, as such, we applied the second step of the goodwill impairment test to this reporting unit. The second step compared the implied fair value of the Huron Financial segment s goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the

HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. Based on the result of the second step of the goodwill impairment analysis, we recorded a $13.1 million non-cash pretax charge to reduce the carrying value of goodwill in our Huron Financial segment.

In estimating future cash flows for our Huron Financial segment, we relied on an internally generated six-year forecast and a three percent long-term assumed annual revenue growth rate for periods after the six-year forecast. Our forecast was based on our historical experience, current backlog, expected market demand, and other industry information. Our discounted cash flow analysis assumed a 13% weighted average cost of capital (WACC) discount rate.

Intangible assets as of September 30, 2013 and December 31, 2012 consisted of the following:

		September 30, 2013		December 31, 2012	
	Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	1 to 13	$ 25,006	$ 13,160	$ 24,738	$ 10,268
Non-competition agreements	1 to 6	4,611	3,658	4,684	3,067
Trade names	1 to 8	150	43	150	8
Technology and software	5	4,041	2,357	4,041	1,751
Document reviewer database	3	450	225	450	90
Total		$ 34,258	$ 19,443	$ 34,063	$ 15,184

Identifiable intangible assets with finite lives are amortized over their estimated useful lives. The majority of customer relationships are amortized on an accelerated basis to correspond to the cash flows expected to be derived from the relationships. All other customer relationships, non-competition agreements, trade names, technology and software, and the document reviewer database are amortized on a straight-line basis.

Intangible assets amortization expense was $1.4 million and $1.9 million for the three months ended September 30, 2013 and September 30, 2012, respectively. Intangible assets amortization expense was $4.3 million and $5.1 million for the nine months ended September 30, 2013 and September 30, 2012, respectively. Estimated annual intangible assets amortization expense is $5.8 million for 2013, $4.6 million for 2014, $3.1 million for 2015, $1.9 million for 2016, $1.2 million for 2017 and $0.8 million for 2018. Actual future amortization expense could differ from these estimated amounts as a result of future acquisitions and other factors.

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

6. Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period, excluding unvested restricted common stock. Diluted earnings per share reflects the potential reduction in earnings per share that could occur if securities or other contracts to issue common stock were exercised or converted into common stock under the treasury stock method. Earnings per share under the basic and diluted computations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Net income from continuing operations	$ 17,161	$ 10,416	$ 44,344	$ 17,308
Income (loss) from discontinued operations, net of tax	10	47	(31)	518
Net income	$ 17,171	$ 10,463	$ 44,313	$ 17,826
Weighted average common shares outstanding basic	22,386	21,950	22,293	21,881
Weighted average common stock equivalents	487	376	419	366
Weighted average common shares outstanding diluted	22,873	22,326	22,712	22,247
Net earnings per basic share:				
Net income from continuing operations	$ 0.77	$ 0.47	$ 1.99	$ 0.79
Income from discontinued operations, net of tax		0.01		0.02
Net income	$ 0.77	$ 0.48	$ 1.99	$ 0.81
Net earnings per diluted share:				
Net income from continuing operations	$ 0.75	$ 0.47	$ 1.95	$ 0.78
Income from discontinued operations, net of tax				0.02
Net income	$ 0.75	$ 0.47	$ 1.95	$ 0.80

The computation of diluted earnings per share excludes unvested restricted common stock, outstanding options and other common stock equivalents in periods where inclusion of such potential common stock instruments would be anti-dilutive. The weighted average common stock equivalents presented above do not include the effect of approximately 36,600 and 42,200 common stock equivalents for the three months ended September 30, 2013 and 2012, respectively, and approximately 78,900 and 85,300 common stock equivalents for the nine months ended September 30, 2013 and 2012, respectively, because their inclusion would be anti-dilutive.

7. Borrowings

During 2011, the Company and certain of the Company s subsidiaries as guarantors entered into an Amended and Restated Credit Agreement with various financial institutions, as amended by the first and second amendments to the credit agreement dated as of August 31, 2012 and September 25, 2013, respectively (as amended and modified, the 2011 Credit Agreement). The 2011 Credit Agreement replaced the previous Credit Agreement, dated as of June 7, 2006, and all subsequent amendments thereto, by and among the Company and the lenders therein. The second amendment to the credit agreement, which we entered into during the third quarter of 2013, extended the term of the 2011 Credit Agreement from August 31, 2017 to September 25, 2018, and provided for less restrictive covenants, among other things.

The 2011 Credit Agreement consists of a senior secured credit facility in an aggregate principal amount of $450.0 million comprised of a five-year revolving credit facility (Revolver) under which the Company may borrow from time to time up to $247.5 million and a $202.5 million five-year term loan facility (Term Loan) that was funded in a single advance on the closing date of the first amendment. The 2011 Credit Agreement provides for the option to increase the revolving credit facility in an aggregate amount of up to $50 million subject to certain requirements as defined in the 2011 Credit Agreement. The proceeds of the senior secured credit facility were used to refinance existing indebtedness and will continue to be used for working capital, capital expenditures, and other corporate purposes.

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The obligations under the 2011 Credit Agreement are secured pursuant to a Security Agreement with Bank of America as Collateral Agent. The Security Agreement grants Bank of America, N.A., for the ratable benefit of the lenders under the 2011 Credit Agreement, a first-priority lien, subject to permitted liens, on substantially all of the personal property assets of the Company and the subsidiary guarantors. The Revolver and Term Loan are also secured by a pledge of 100% of the voting stock or other equity interests in our domestic subsidiaries and 65% of the voting stock or other equity interests in our foreign subsidiaries.

Fees and interest on borrowings vary based on our total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio as set forth in the 2011 Credit Agreement. Interest is based on a spread over the London Interbank Offered Rate (LIBOR) or a spread over the base rate, as selected by the Company. The base rate is the greater of (a) the Federal Funds Rate plus 0.5%, (b) the Prime Rate and (c) except during a Eurodollar Unavailability Period, the Eurodollar Rate plus 1.0%.

As of the date of the second amendment to the credit agreement, the Term Loan had a principal amount outstanding of $181.3 million. This principal balance is subject to scheduled quarterly amortization payments equal to 6.9% of the principal balance in 2013, 13.8% in 2014, 15.8% in 2015, 16.6% in 2016, 16.6% in 2017, and 30.3% in 2018, as set forth in the 2011 Credit Agreement. The maturity date for the Term Loan is September 25, 2018, at which time the outstanding principal balance and all accrued interest will be due and payable in full. All outstanding borrowings under the Revolver, as amended, will be due upon expiration of the 2011 Credit Agreement on September 25, 2018. As of September 30, 2013, the Company has made all scheduled quarterly amortization payments as they have come due in accordance with the Term Loan.

Under the 2011 Credit Agreement, dividends are restricted to an amount up to $50 million plus 50% of cumulative consolidated net income from the closing date of the 2011 Credit Agreement plus 50% of the net cash proceeds from equity issuances. In addition, certain acquisitions and similar transactions need to be approved by the lenders.

The 2011 Credit Agreement contains quarterly financial covenants that require us to maintain a minimum fixed charge coverage ratio of 2.25 to 1.00 and a maximum leverage ratio that varies throughout the term and was 3.00 to 1.00 as of September 30, 2013, as those ratios are defined therein, as well as a minimum net worth greater than $150 million. At September 30, 2013, we were in compliance with these financial covenants with a fixed charge coverage ratio of 4.14 to 1.00, a leverage ratio of 1.18 to 1.00, and net worth greater than $150 million. At December 31, 2012, we were also in compliance with these financial debt covenants.

The borrowing capacity under the 2011 Credit Agreement is reduced by any outstanding letters of credit and payments under the Term Loan. At September 30, 2013, outstanding letters of credit totaled $4.8 million and are primarily used as security deposits for our office facilities. As of September 30, 2013, the unused borrowing capacity under the 2011 Credit Agreement was $242.7 million. Borrowings outstanding under this credit facility at September 30, 2013 totaled $175.0 million, all of which was under the Term Loan. These borrowings carried a weighted average interest rate of

2.0%, including the effect of the interest rate swaps described below in Note 9 Derivative Instruments and Hedging Activity. Borrowings outstanding at December 31, 2012 were $192.5 million and carried a weighted average interest rate of 2.5%. Effective March 31, 2013, we have classified as current liabilities the scheduled quarterly principal payments due under the Term Loan within twelve months of the balance sheet date, as we intend to make these payments with cash from operations rather than from availability under the Revolver.

8. Restructuring Charges

During the second quarter of 2013, we incurred a $0.6 million pretax restructuring charge related to the consolidation of office space in Washington, D.C. The charge primarily consisted of the accrual of remaining lease payments for an office we vacated during the second quarter of 2013.

During the third quarter of 2012, we incurred a $2.2 million pretax restructuring charge primarily consisting of $0.9 million related to the consolidation of office space in Washington, D.C. and $1.1 million related to our office relocation in New York, which occurred in the fourth quarter of 2012. The Washington, D.C. charge included an accrual of $0.7 million for the remaining lease payments, net of estimated sublease income, for the office space we vacated during the third quarter of 2012 and $0.2 million of accelerated depreciation on leasehold improvements for that space. The New York charge included $0.4 million of accelerated depreciation and $0.7 million for brokerage fees related to the execution of a sublease

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arrangement. We did not incur a lease charge related to the relocation of our New York City office space as income from our subtenant is expected to more than offset our remaining lease obligations through 2016, net of our deferred lease liability. During the first and second quarters of 2012, we incurred cumulative charges of $1.1 million primarily related to accelerated depreciation on our New York office leasehold improvements, partially offset by the net favorable impact of updated assumptions for lease accruals related to previously vacated office spaces.

As of September 30, 2013, our restructuring charge liability is $0.8 million, and primarily consists of the present value of remaining lease payments, net of estimated sublease income, for our vacated office spaces in San Francisco and Washington, D.C. The restructuring charge liability is included as a component of Accrued expenses and Deferred compensation and other liabilities.

9. Derivative Instruments and Hedging Activity

On March 20, 2009, we entered into an interest rate swap agreement for a notional amount of $100.0 million effective on March 31, 2009 and ending on February 23, 2012. We entered into this derivative instrument to hedge against the risk of changes in future cash flows related to changes in interest rates on $100.0 million of the total variable-rate borrowings outstanding described above in Note 7 Borrowings. Under the terms of the interest rate swap agreement, we received from the counterparty interest on the $100.0 million notional amount based on one-month LIBOR and we paid to the counterparty a fixed rate of 1.715%. This swap effectively converted $100.0 million of our variable-rate borrowings to fixed-rate borrowings beginning on March 31, 2009 and through February 23, 2012.

On December 8, 2011, we entered into a forward amortizing interest rate swap agreement effective on February 29, 2012 and ending on April 14, 2016. We entered into this derivative instrument to continue hedging against the interest rate risks of our variable-rate borrowings described above. The swap had an initial notional amount of $56.6 million and amortizes throughout the term. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 0.9875%.

On May 30, 2012, we entered into an additional forward amortizing interest rate swap agreement effective on May 31, 2012 and ending on April 14, 2016. We entered into this derivative instrument to further hedge against the interest rate risks of our variable-rate borrowings described above. The swap had an initial notional amount of $37.0 million and amortizes throughout the term. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 0.70%.

On April 4, 2013, we entered into a one-year forward amortizing interest rate swap agreement effective on March 31, 2014 and ending on August 31, 2017. We entered into this derivative instrument to further hedge against the interest rate risks of our variable-rate borrowings described above. The swap has an initial notional amount of $60.0 million and amortizes such that, collectively with our other two interest rate swaps, we are effectively fixing the interest rate on 80% of our Term Loan borrowings throughout the term of the swap agreement. Under the terms of the interest rate swap agreement, we will receive from the counterparty interest on the notional amount based on one-month LIBOR and we will pay to the counterparty a fixed rate of 0.985%.

FASB ASC Topic 815, Derivatives and Hedging, requires companies to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. In accordance with ASC Topic 815, we have designated these derivative instruments as cash flow hedges. As such, changes in the fair value of the derivative instruments are recorded as a component of other comprehensive income (OCI) to the extent of effectiveness and reclassified into interest expense upon settlement. The ineffective portion of the change in fair value of the derivative instruments is recognized in interest expense. As of September 30, 2013, it was anticipated that $0.4 million of the net losses, net of tax, currently recorded in OCI will be reclassified into earnings within the next 12 months. Our interest rate swap agreements were effective during the three and nine months ended September 30, 2013.

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The table below sets forth additional information relating to these interest rate swaps designated as cash flow hedging instruments as of September 30, 2013 and December 31, 2012.

	Fair Value (Derivative Asset and Liability)	
Balance Sheet Location	**September 30, 2013**	**December 31, 2012**
Other non-current assets	$ 582	$
Accrued expenses	$ 661	$ 493
Deferred compensation and other liabilities	$ 124	$ 439

All of the Company s derivative instruments are transacted under the International Swaps and Derivatives Association (ISDA) master agreements. These agreements permit the net settlement of amounts owed in the event of default and certain other termination events. Although netting is permitted, it is the Company s policy to record all derivative assets and liabilities on a gross basis on the consolidated balance sheets. If we had elected to net derivative instruments subject to master netting agreements as of September 30, 2013, the impact would have reduced our derivative assets and liabilities by $0.2 million. As of December 31, 2012, all of our derivative instruments were recorded as liabilities.

We do not use derivative instruments for trading or other speculative purposes, and we did not have any other derivative instruments or hedging activities as of September 30, 2013. Refer to Note 11 Other Comprehensive Income (Loss) for additional information on our derivative instruments.

10. Fair Value of Financial Instruments

Certain of our assets and liabilities are measured at fair value. FASB ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy for inputs used in measuring fair value and requires companies to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy consists of three levels based on the objectivity of the inputs as follows:

Level 1 Inputs Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs	Quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3 Inputs	Unobservable inputs for the asset or liability, and include situations in which there is little, if any, market activity for the asset or liability.

Cash and cash equivalents are stated at cost, which approximates fair market value. The carrying values for receivables from clients, unbilled services, accounts payable, deferred revenues and other accrued liabilities reasonably approximate fair market value due to the nature of the financial instrument and the short-term maturity of these items. The carrying values of our bank borrowings reported in the Consolidated Balance Sheets approximate fair value, using level 2 inputs, since they bear interest at variable rates based on market rates as set forth in the 2011 Credit Agreement. Refer to Note 7 Borrowings.

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The table below sets forth our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2013				
Assets:				
Promissory note	$	$	$ 2,666	$ 2,666
Interest rate swaps		366		366
Total assets	$	$ 366	$ 2,666	$ 3,032
Liabilities:				
Interest rate swaps	$	$ 569	$	$ 569
Deferred acquisition payments			5,103	5,103
Total liabilities	$	$ 569	$ 5,103	$ 5,672
December 31, 2012				
Asset:				
Promissory note	$	$	$ 2,907	$ 2,907
Liabilities:				
	$	$ 932	$	$ 932

Interest rate swaps								
Deferred acquisition payments						10,525		10,525
Total liabilities	$		$	932	$	10,525	$	11,457

As part of the consideration received for the sale of our AA practice on December 30, 2011, the Company received a $3.5 million promissory note payable over four years. The note will be paid to the Company in quarterly installments of approximately $0.2 million which began in the second quarter of 2013 with a final payment of approximately $1.1 million on the maturity date in December 2015. The fair value of the note is based on the net present value of the projected cash flows using a discount rate of 14%, which accounts for the risks associated with the note. The decrease in the fair value of the note during the first nine months of 2013 reflects the principal payments received, less the accretion of interest income in excess of interest payments received.

The fair value of the interest rate swaps was derived using estimates to settle the interest rate swap agreements, which are based on the net present value of expected future cash flows on each leg of the swaps utilizing market-based inputs and discount rates reflecting the risks involved.

Deferred acquisition payments are included in the total purchase consideration for certain business acquisitions the Company has completed and represent fixed future payments owed to the sellers of those businesses. The fair value of the deferred acquisition payments is based on the payment terms, which range from one to two years, and the net present value of expected cash flows using a discount rate ranging from 4% to 8%. The decrease in the fair value of the deferred acquisition payments during the first nine months of 2013 reflects payments of principal and accrued interest during the first nine months of 2013, less the accretion of interest expense in excess of interest payments made.

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11. Other Comprehensive Income

The table below sets forth the components of other comprehensive income, net of tax, for the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Before Taxes	Tax (Expense) Benefit	Net of Taxes	Before Taxes	Tax (Expense) Benefit	Net of Taxes
Other comprehensive income:						
Foreign currency translation adjustment	$ 1,019	$ 6	$ 1,025	$ 496	$	$ 496
Unrealized gain (loss) on cash flow hedges:						
Change in fair value	$ (549)	$ 218	$ (331)	$ (382)	$ 151	$ (231)
Reclassification adjustments into earnings	142	(56)	86	144	(57)	87
Net unrealized gain (loss)	$ (407)	$ 162	$ (245)	$ (238)	$ 94	$ (144)
Other comprehensive income	$ 612	$ 168	$ 780	$ 258	$ 94	$ 352

	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Before Taxes	Tax (Expense)	Net of Taxes	Before Taxes	Tax (Expense)	Net of Taxes

		Benefit				Benefit	
Other comprehensive income:							
Foreign currency translation adjustment	$ 62	$ 57	$ 119	$ 403	$ (45)	$ 358
Unrealized gain (loss) on cash flow hedges:						
Change in fair value	$ 308	$ (122)	$ 186	$ (1,074)	$ 428	$ (646)
Reclassification adjustments into earnings	421	(168)	253	516	(206)	310
Net unrealized gain (loss)	$ 729	$ (290)	$ 439	$ (558)	$ 222	$ (336)
Other comprehensive income	$ 791	$ (233)	$ 558	$ (155)	$ 177	$ 22

The before tax amounts reclassified from accumulated other comprehensive loss related to our cash flow hedges are recorded to Interest expense, net of interest income.

Accumulated other comprehensive loss, net of tax, includes the following components:

	Foreign Currency Translation Adjustments	**Net Unrealized Gains/(Losses) on Derivatives**	**Accumulated Other Comprehensive Loss**
Balance, December 31, 2012	$ (805)	$ (554)	$ (1,359)
Current period change	119	439	558
Balance, September 30, 2013	$ (686)	$ (115)	$ (801)

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12. Income Taxes

The Company s effective tax rates for the three months ended September 30, 2013 and 2012 were 42.2% and 43.4%, respectively. The Company s effective tax rates for the nine months ended September 30, 2013 and 2012 were 43.1% and 47.6%, respectively. The effective tax rates for the three and nine months ended September 30, 2013 were higher than the statutory rate, inclusive of state income taxes, due primarily to the impact of foreign losses with no tax benefit and certain non-deductible business expenses, partially offset by the impact of certain credits and deductions. The effective tax rates for both periods in 2012 were higher than the statutory rate, inclusive of state income taxes, due primarily to the impact of foreign losses with no tax benefit, partially offset by the release of reserves for uncertain tax positions. The foreign losses with no tax benefit had a larger impact on our effective tax rate in both periods of 2012 compared to 2013 due to the lower pretax income from continuing operations for both the three and nine months ended September 30, 2012.

13. Commitments, Contingencies and Guarantees

Litigation

Qui Tam Action

On December 9, 2009, plaintiff, Associates Against Outlier Fraud, filed a first amended *qui tam* complaint against Huron Consulting Group Inc. and others under the federal and New York state False Claims Act (FCA) in the United States District Court for the Southern District of New York. The federal and state FCA authorize private individuals (known as relators) to sue on behalf of the government (known as *qui tam* actions) alleging that false or fraudulent claims were knowingly submitted to the government. Once a *qui tam* action is filed, the government may elect to intervene in the action. If the government declines to intervene, the relator may proceed with the action. Under the federal and state FCA, the government may recover treble damages and civil penalties (civil penalties of up to $11,000 per violation under the federal FCA and $12,000 per violation under the state FCA). On January 6, 2010, the United States declined to intervene in the lawsuit. After the Court granted Huron s motion to dismiss without prejudice, on September 29, 2010, the relator filed a second amended complaint alleging that Huron and others caused St. Vincent Catholic Medical Center to receive more than $30 million in inflated outlier payments under the Medicare and Medicaid programs in violation of the federal and state FCA and seeking to recover an unspecified amount of civil penalties. On March 8, 2013, the Court granted Huron s motion for summary judgment and dismissed the relator s second amended complaint in its entirety with prejudice. As a result, we reversed the charge of $1.2 million relating to settlement discussions which we recorded in the second quarter of 2012, in accordance with FASB ASC Topic 450, Contingencies. The relator filed an appeal on April 2, 2013. On April 8, 2013, Huron filed an appeal of an earlier denial of a motion to dismiss filed by Huron which argued that the relator s action was barred because, under the FCA jurisdictional bar, the action was based on publicly disclosed information and the relator cannot qualify as an original source. We continue to believe that the claims are without merit and intend to vigorously defend ourselves in this matter.

Tamalluk Business Development LLC v. Huron Consulting Services LLC (Abu Dhabi Court of First Instance)

On August 22, 2013, we learned that Tamalluk Business Development LLC, who was Huron s agent in Abu Dhabi, and its principal, Mubarak Ahmad Bin Hamouda Al Dhaheri, filed a claim against Huron Consulting Services LLC in the Abu Dhabi Court of First Instance. The lawsuit alleges that under the agency agreement, Tamalluk was entitled to a commission on certain amounts that Huron collected from Abu Dhabi clients, and that Huron breached the agreement with Tamalluk and caused damages by declining to enter into a client engagement in Abu Dhabi and subsequently terminating the agency agreement with Tamalluk. Claimants allege they are entitled to $50 million for damage to reputation and defamation and another $50 million for breach of contract. Huron submitted its written response on September 25, 2013. The response states that Huron had the right to terminate the agency agreement with Tamalluk, and Huron had the sole discretion whether to accept or reject an engagement. Huron also filed a counterclaim on October 10, 2013 seeking a judicial order to permit the cancellation of Huron s commercial license to allow Huron to cease doing business in Abu Dhabi. We believe the claims made by Tamalluk Business Development and its principal are without merit and intend to vigorously defend ourselves in this matter.

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Other Litigation Gain

During the third quarter of 2013, we reached a settlement agreement to resolve a lawsuit brought by Huron, resulting in a gain of $5.3 million being recorded. We collected $2.6 million of the settlement amount during the fourth quarter of 2013, and we anticipate the remaining amount will be collected during the first quarter of 2014. The settlement receivable is recorded in Prepaid expenses and other current assets.

From time to time, we are involved in legal proceedings and litigation arising in the ordinary course of business. As of the date of this Quarterly Report on Form 10-Q, we are not a party to or threatened with any other litigation or legal proceeding that, in the current opinion of management, could have a material adverse effect on our financial position or results of operations. However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expected results.

Guarantees and Indemnification

Guarantees in the form of letters of credit totaling $4.8 million and $5.1 million were outstanding at September 30, 2013 and December 31, 2012, respectively, to support certain office lease obligations as well as Middle East performance and bid bonds.

To the extent permitted by law, our bylaws and articles of incorporation require that we indemnify our officers and directors against judgments, fines and amounts paid in settlement, including attorneys fees, incurred in connection with civil or criminal action or proceedings, as it relates to their services to us if such person acted in good faith. Although there is no limit on the amount of indemnification, we may have recourse against our insurance carrier for certain payments made.

14. Segment Information

Segments are defined by FASB ASC Topic 280, Segment Reporting, as components of a company in which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. In the first quarter of 2013, the Company reorganized its internal financial reporting structure. Under the new structure, the Company began reporting information as five operating segments: Huron Healthcare; Huron Legal; Huron Education and Life Sciences; Huron Financial; and All Other. Our chief operating decision maker manages the business under these five operating segments.

Under this new internal financial reporting structure, the former Health and Education Consulting segment became two separate segments: Huron Healthcare and Huron Education and Life Sciences. These practices continue to share a significant number of academic medical center clients and will continue to closely collaborate in the market. The Legal Consulting segment is now referred to as Huron Legal and the Financial Consulting segment is now referred to as Huron Financial. The structure of the Legal Consulting and Financial Consulting segments did not change. In addition, certain immaterial practices which were historically part of our Health and Education Consulting segment were combined and disclosed in our All Other segment. While our consolidated results have not been impacted, we have restated our historical segment information for consistent presentation.

Huron Healthcare

Our Huron Healthcare segment provides consulting services to national and regional integrated health systems, physician practices, community hospitals, managed care organizations, and academic medical centers. This segment provides consulting services related to hospital or healthcare organization performance improvement, revenue cycle improvement, clinical quality and care variation, labor productivity, non-labor cost management, information technology, patient flow improvement and physician practice management.

Huron Legal

Our Huron Legal segment provides advisory and business services to assist law departments of major global corporations and law firms with their strategy, organizational design and development, operational efficiency, and cost effectiveness. These results-driven services help reduce the amounts they spend on legal services and enhance client service. Our expertise focuses on strategic and management consulting, cost management, and technology and information management including matter management, records management, digital evidence, document review and discovery services.

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Huron Education and Life Sciences

Our Huron Education and Life Sciences segment provides consulting services to universities, research institutions, healthcare organizations, academic medical centers, and pharmaceutical, medical device manufacturer and biotechnology companies. We develop and implement performance improvement, technology, and research enterprise solutions to help clients address challenges relating to financial management, strategy, operational and organizational effectiveness, research administration, and regulatory compliance.

Huron Financial

Our Huron Financial segment provides financial advisory, restructuring and turnaround, interim management, valuation, forensic and litigation, and operational improvement consulting services to companies in transition, boards of directors, and investors and lenders. Our consultants provide senior level involvement and extensive industry experience to drive results. Our experienced leadership, management depth and flexible staffing model allow us to efficiently lead projects ranging from middle market to large company assignments. We draw on career experience gathered from operations, lending, investment banking, portfolio and asset management, public accounting, and management consulting to provide practical business solutions.

All Other

Our All Other segment consists of any lines of business not managed by our other four operating segments. These businesses include our public sector consulting practice and our foreign healthcare and strategic consulting operations based in the Middle East.

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include costs for corporate office support, certain office facility costs, costs relating to accounting and finance, human resources, legal, marketing, information technology and Company-wide business development functions, as well as costs related to overall corporate management.

The table below sets forth information about our operating segments for the three and nine months ended September 30, 2013 and 2012, along with the items necessary to reconcile the segment information to the totals reported in the accompanying Consolidated Financial Statements.

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	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Huron Healthcare:				
Revenues	$ 86,957	$ 74,999	$ 244,648	$ 201,171
Operating income	$ 30,772	$ 33,868	$ 91,440	$ 69,778
Segment operating income as a percentage of segment revenues	35.4%	45.2%	37.4%	34.7%
Huron Legal:				
Revenues	$ 45,263	$ 46,153	$ 131,296	$ 133,443
Operating income	$ 15,138	$ 11,479	$ 28,869	$ 33,489
Segment operating income as a percentage of segment revenues	33.4%	24.9%	22.0%	25.1%
Huron Education and Life Sciences:				
Revenues	$ 34,806	$ 33,863	$ 107,666	$ 93,373
Operating income	$ 7,773	$ 12,406	$ 28,672	$ 28,051
Segment operating income as a percentage of segment revenues	22.3%	36.6%	26.6%	30.0%
Huron Financial:				
Revenues	$ 7,223	$ 6,689	$ 25,068	$ 16,821
Operating income	$ 664	$ 1,763	$ 7,995	$ 1,659
Segment operating income as a percentage of segment revenues	9.2%	26.4%	31.9%	9.9%
All Other:				
Revenues	$ 486	$ 184	$ 500	$ 388
Operating loss	$ (285)	$ (428)	$ (701)	$ (1,971)
Segment operating loss as a percentage of segment revenues	N/M	N/M	N/M	N/M
Total Company:				
Revenues	$ 174,735	$ 161,888	$ 509,178	$ 445,196
Reimbursable expenses	17,542	13,470	51,001	41,820
Total revenues and reimbursable expenses	$ 192,277	$ 175,358	$ 560,179	$ 487,016
Statements of Earnings reconciliation:				
Segment operating income	$ 54,062	$ 59,088	$ 156,275	$ 131,006

Items not allocated at the segment level:				
Other operating expenses and gains	17,975	20,562	58,640	65,436
Depreciation and amortization expense	4,968	4,879	14,624	13,585
Goodwill impairment charge		13,083		13,083
Other expense, net	1,427	2,176	5,135	5,887
Income from continuing operations before income tax expense	$ 29,692	$ 18,388	$ 77,876	$ 33,015

N/M Not Meaningful

Segment Assets:	September 30, 2013	December 31, 2012
Huron Healthcare	$ 79,678	$ 60,288
Huron Legal	47,846	51,594
Huron Education and Life Sciences	26,391	31,129
Huron Financial	10,445	1,462
All Other	72	50
Unallocated assets (1)	655,580	643,377
Total assets	$ 820,012	$ 787,900

(1) Goodwill and intangible assets are included in unallocated assets, as management does not evaluate these items at the segment level when assessing segment performance or allocating resources.

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At both September 30, 2013 and December 31, 2012, no single client accounted for greater than 10% of our combined receivables and unbilled services balances. No single client generated greater than 10% of our consolidated revenues during the three and nine months ended September 30, 2013 and 2012.

15. Subsequent Events

On October 1, 2013, the Company completed its acquisition of the assets of Blue Stone International, LLC (Blue Stone), a provider of professional services supporting Oracle enterprise performance management, information management, and business intelligence solutions. Under the terms of the asset purchase agreement, the Company acquired substantially all of the assets and assumed certain liabilities of Blue Stone in exchange for $30 million in cash. The results of operations of Blue Stone will be included within the Huron Education and Life Sciences segment.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, the terms Huron, Company, we, us our refer to Huron Consulting Group Inc. and its subsidiaries.

Statements in this Quarterly Report on Form 10-Q that are not historical in nature, including those concerning the Company s current expectations about its future requirements and needs, are forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act) and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by words such as may, should, expects, provides, anticipates, assumes, can, will, meets, could, likely, intends, might, predicts, estimates, plans or continues. These forward-looking statements reflect our current expectations about our future requirements and needs, results, levels of activity, performance, or achievements, including, without limitation, current expectations with respect to, among other factors, utilization rates, billing rates, and the number of revenue-generating professionals; that we are able to expand our service offerings; that we successfully integrate the businesses we acquire; and that existing market conditions continue to trend upward. These statements involve known and unknown risks, uncertainties and other factors, including, among others, those described under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012 that may cause actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We disclaim any obligation to update or revise any forward-looking statements as a result of new information or future events, or for any other reason.

OVERVIEW

Our Business

Huron Consulting Group is a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, reduce costs, leverage technology, process and review large amounts of complex data, address regulatory changes, recover from distress and stimulate growth. Our professionals employ their expertise in administration, management, finance, operations, strategy and technology to provide our clients with specialized analyses and customized advice and solutions that are tailored to address each client s particular challenges and opportunities to deliver sustainable and measurable results. We provide consulting services to a wide variety of both financially sound and distressed organizations, including healthcare organizations, leading academic institutions, Fortune 500 companies, governmental entities and law firms. We have worked with more than 90 of the top 100 research universities, more than 400 corporate general counsel, and more than 385 hospitals and academic medical centers.

We provide our services through five operating segments: Huron Healthcare, Huron Legal, Huron Education and Life Sciences, Huron Financial and All Other.

Huron Healthcare

Our Huron Healthcare segment provides consulting services to national and regional integrated health systems, physician practices, community hospitals, managed care organizations, and academic medical centers. This segment provides consulting services related to hospital or healthcare organization performance improvement, revenue cycle improvement, clinical quality and care variation, labor productivity, non-labor cost management, information technology, patient flow improvement and physician practice management.

Huron Legal

Our Huron Legal segment provides advisory and business services to assist law departments of major global corporations and law firms with their strategy, organizational design and development, operational efficiency, and cost effectiveness. These results-driven services help reduce the amounts they spend on legal services and enhance client service. Our expertise focuses on strategic and management consulting, cost management, and technology and information management including matter management, records management, digital evidence, document review and discovery services.

Huron Education and Life Sciences

Our Huron Education and Life Sciences segment provides consulting services to universities, research institutions, healthcare organizations, academic medical centers, and pharmaceutical, medical device manufacturer and biotechnology companies. We develop and implement performance improvement, technology, and research enterprise solutions to help clients address challenges relating to financial management, strategy, operational and organizational effectiveness, research administration, and regulatory compliance.

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Huron Financial

Our Huron Financial segment provides financial advisory, restructuring and turnaround, interim management, valuation, forensic and litigation, and operational improvement consulting services to companies in transition, boards of directors, and investors and lenders. Our consultants provide senior level involvement and extensive industry experience to drive results. Our experienced leadership, management depth and flexible staffing model allow us to efficiently lead projects ranging from middle market to large company assignments. We draw on career experience gathered from operations, lending, investment banking, portfolio and asset management, public accounting, and management consulting to provide practical business solutions.

All Other

Our All Other segment consists of any line of business not managed by our other four operating segments. These businesses include our public sector consulting practice and our foreign healthcare and strategic consulting operations based in the Middle East.

How We Generate Revenues

A large portion of our revenues is generated by our full-time consultants who provide consulting services to our clients and are billable to our clients based on the number of hours worked. A smaller portion of our revenues is generated by our other professionals, also referred to as full-time equivalents, all of whom work variable schedules as needed by our clients. Other professionals include specialized finance and operational consultants and our document review and electronic data discovery groups, as well as full-time employees who provide software support and maintenance services to our clients. Our document review and electronic data discovery groups generate revenues primarily based on number of hours worked and units produced, such as pages reviewed or amount of data processed. We translate the hours that these other professionals work on client engagements into a full-time equivalent measure that we use to manage our business. We refer to our full-time consultants and other professionals collectively as revenue-generating professionals.

Revenues generated by our full-time consultants are primarily driven by the number of consultants we employ and their utilization rates, as well as the billing rates we charge our clients. Revenues generated by our other professionals, or full-time equivalents, are largely dependent on the number of consultants we employ, their hours worked and billing rates charged, as well as the number of pages reviewed and amount of data processed in the case of our document review and electronic data discovery groups, respectively.

We generate the majority of our revenues from providing professional services under four types of billing arrangements: time-and-expense, fixed-fee (including software license revenue), performance-based and support and maintenance for the software we deploy.

Time-and-expense billing arrangements require the client to pay based on either the number of hours worked, the number of pages reviewed, or the amount of data processed by our revenue-generating professionals at agreed upon rates. We recognize revenues under time-and-expense billing arrangements as the related services are rendered. Time-and-expense engagements represented 45.3% and 48.1% of our revenues in the three months ended September 30, 2013 and 2012, respectively. Time-and-expense engagements represented 46.3% and 48.1% of our revenues in the nine months ended September 30, 2013 and 2012, respectively.

In fixed-fee billing arrangements, we agree to a pre-established fee in exchange for a pre-determined set of professional services, which may include the deployment of our proprietary software. We set the fees based on our estimates of the costs and timing for completing the engagements. It is the client s expectation in these engagements that the pre-established fee will not be exceeded except in mutually agreed upon circumstances. We generally recognize revenues under fixed-fee billing arrangements using a proportionate performance approach, which is based on our estimates of work completed to-date versus the total services to be provided under the engagement.

We generate revenues from licensing two types of proprietary software to clients. Licenses for our revenue cycle management software are sold only as a component of our consulting projects and the services we provide are essential to the functionality of the software. Therefore, revenues from the revenue cycle management software licenses are recognized over the term of the related consulting services contract in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 605-35, Revenue Recognition. License revenue from our research administration and compliance software is recognized in accordance with FASB ASC Topic 985-605, Software Revenue Recognition, generally in the month in which the software is delivered.

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For the three months ended September 30, 2013 and 2012, fixed-fee engagements (including software license revenue) represented approximately 37.8% and 31.8%, respectively, of our revenues. For the nine months ended September 30, 2013 and 2012, fixed-fee engagements represented approximately 38.5% and 35.6%, respectively, of our revenues.

In performance-based fee billing arrangements, fees are tied to the attainment of contractually defined objectives. We enter into performance-based engagements in essentially two forms. First, we generally earn fees that are directly related to the savings formally acknowledged by the client as a result of adopting our recommendations for improving operational and cost effectiveness in the areas we review. Second, we have performance-based engagements in which we earn a success fee when and if certain predefined outcomes occur. Often, performance-based fees supplement our time-and-expense or fixed-fee engagements. We do not recognize revenues under performance-based billing arrangements until all related performance criteria are met. Performance-based fee revenues represented 13.2% and 16.8% of our revenues in the three months ended September 30, 2013 and 2012, respectively. Performance-based fee revenues represented 11.8% and 12.7% of our revenues in the nine months ended September 30, 2013 and 2012, respectively. Performance-based fee engagements may cause significant variations in quarterly revenues and operating results depending on the timing of achievement of the performance-based criteria.

Clients that have purchased one of our software licenses can pay an annual fee for software support and maintenance. Annual support and maintenance fee revenue is recognized ratably over the support period, which is generally one year. These fees are billed in advance and included in deferred revenues until recognized. Support and maintenance revenues represented 3.7% and 3.3% of our revenues in the three months ended September 30, 2013 and 2012, respectively. Support and maintenance revenues represented 3.4% and 3.6% of our revenues in the nine months ended September 30, 2013 and 2012, respectively.

Our quarterly results are impacted principally by our full-time consultants utilization rate, the billing rate we charge our clients, the number of our revenue-generating professionals who are available to work and the amount of performance-based fees recognized, which often vary significantly between quarters. Our utilization rate can be negatively affected by increased hiring because there is generally a transition period for new professionals that results in a temporary drop in our utilization rate. Our utilization rate can also be affected by seasonal variations in the demand for our services from our clients. For example, during the third and fourth quarters of the year, vacations taken by our clients can result in the deferral of activity on existing and new engagements, which would negatively affect our utilization rate. The number of business work days is also affected by the number of vacation days taken by our consultants and holidays in each quarter. We typically have fewer business work days available in the fourth quarter of the year, which can impact revenues during that period.

Time-and-expense engagements do not provide us with a high degree of predictability as to performance in future periods. Unexpected changes in the demand for our services can result in significant variations in utilization and revenues and present a challenge to optimal hiring and staffing. Moreover, our clients typically retain us on an engagement-by-engagement basis, rather than under long-term recurring contracts. The volume of work performed for any particular client can vary widely from period to period.

Business Strategy, Opportunities and Challenges

Our primary strategy is to meet the needs of our clients by providing a balanced portfolio of service offerings and capabilities, so that we can adapt quickly and effectively to emerging opportunities in the marketplace. To achieve this, we have entered into select acquisitions of complementary businesses and continue to hire highly qualified professionals.

To expand our business, we will remain focused on growing our existing relationships and developing new relationships, execute our managing director compensation plan to attract and retain senior practitioners, continue to promote and provide an integrated approach to service delivery, broaden the scope of our existing services, and acquire complementary businesses. We will regularly evaluate the performance of our practices to ensure our investments meet these objectives. Furthermore, we intend to enhance our visibility in the marketplace by refining our overarching messaging and value propositions for the organization as well as each practice. We will continue to focus on reaching our client base through clear, concise, endorsed messages.

We are considering an amendment to our 2012 Omnibus Incentive Plan to increase the number of shares available for grant so we may continue to attract and retain key business leaders and align their interests with those of our stockholders to drive future growth. It is likely that if we do so, we would request approval for an amount of shares that could be larger than the amount of shares approved by the shareholders in 2012.

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CRITICAL ACCOUNTING POLICIES

Management s discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. We review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate information relative to the current economic and business environment. The preparation of financial statements in conformity with GAAP requires management to make assessments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that we believe present the most complex or subjective measurements and have the most potential to impact our financial position and operating results. While all decisions regarding accounting policies are important, we believe that there are four accounting policies that could be considered critical. These critical accounting policies relate to revenue recognition, allowances for doubtful accounts and unbilled services, carrying values of goodwill and other intangible assets, and valuation of net deferred tax assets. For a detailed discussion of these critical accounting policies, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2012. Below is an update to our critical accounting policy relating to the carrying values of goodwill and other intangible assets. There have been no material changes to our other critical accounting policies during the first nine months of 2013.

Carrying Values of Goodwill and Other Intangible Assets

During the first quarter of 2013, we changed our internal financial reporting structure. Under the new structure, our former Health and Education Consulting segment became two separate segments: Huron Healthcare and Huron Education and Life Sciences. In addition, certain immaterial practices which were historically part of our Health and Education Consulting segment were combined and disclosed in our All Other segment. The Legal Consulting segment is now referred to as Huron Legal and the Financial Consulting segment is now referred to as Huron Financial. The structure of the Legal Consulting and Financial Consulting segments did not change. As a result of these changes, we now have five reporting segments, which are the same as our operating segments and reporting units.

In accordance with ASC 350, Intangibles Goodwill and Other, we reassigned the goodwill balance of the Health and Education Consulting segment using the relative fair value approach based on an evaluation of expected future discounted cash flows. Based on this relative fair value analysis, we reassigned $355.9 million of goodwill to Huron Healthcare and $94.6 million of goodwill to Huron Education and Life Sciences.

In conjunction with the goodwill reassignment, we performed the first step of the goodwill impairment test for the goodwill balances within our Huron Healthcare and Huron Education and Life Sciences reporting units as of January 2, 2013. Based on the result of the first step of the goodwill impairment test, we determined that the fair values of our Huron Healthcare and Huron Education and Life Sciences reporting units exceeded their carrying values. Since the fair values of both reporting units exceeded their carrying values, the second step of the goodwill impairment test was not necessary.

In estimating the fair value of our Huron Healthcare and Huron Education and Life Sciences reporting units, we relied on a combination of the income approach and the market approach, utilizing the guideline company method, with a fifty-fifty weighting. For companies providing services similar to those provided by us, the income and market approaches will generally provide the most reliable indications of value because the value of such companies is dependent on their ability to generate earnings.

In the income approach, we utilized a discounted cash flow analysis, which involved estimating the expected after-tax cash flows that will be generated by our reporting units and then discounting those cash flows to present value reflecting the relevant risks associated with the reporting units and the time value of money. This approach requires the use of significant estimates and assumptions, including long-term projections of future cash flows, market conditions, discount rates reflecting the risk inherent in future cash flows, revenue growth, perpetual growth rates and profitability, among others. In estimating future cash flows, we relied on an internally generated six-year forecast. For periods after the six-year forecast, we assumed a 3.5% long-term annual revenue growth rate. Our forecast is based on our historical experience, current backlog, expected market demand, and other industry information. Our discounted cash flow analysis assumed a 13% weighted average cost of capital (WACC) discount rate for each reporting unit.

In the market approach, we utilized the guideline company method, which involved calculating valuation multiples based on operating data from guideline publicly traded companies. Multiples derived from guideline companies provide an indication of how much a knowledgeable investor in the marketplace would be willing to pay for a company. These multiples were then adjusted for factors similar to those used in a discounted cash flow analysis and applied to the operating data for our reporting units to arrive at an indication of value.

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Determining the fair value of a reporting unit requires us to make significant judgments, estimates and assumptions. While we believe that the estimates and assumptions underlying our valuation methodology are reasonable, these estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. The results of an impairment analysis are as of a point in time. There is no assurance that the actual future earnings or cash flows of our reporting units will not differ significantly from our projections. We will monitor any changes to our assumptions and will evaluate goodwill as deemed warranted during future periods. Any significant decline in our operations could result in goodwill impairment charges.

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected segment and consolidated operating results and other operating data. Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated costs include corporate costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment.

During the first quarter of 2013, we changed our internal financial reporting structure. Under the new structure, our former Health and Education Consulting segment became two separate segments: Huron Healthcare and Huron Education and Life Sciences. In addition, certain immaterial practices which were historically part of our Health and Education Consulting segment were combined and disclosed in our All Other segment. The Legal Consulting segment is now referred to as Huron Legal and the Financial Consulting segment is now referred to as Huron Financial. The structure of the Legal Consulting and Financial Consulting segments did not change. As a result of these changes, we now have five reporting segments, which are the same as our operating segments. Certain amounts reported in the prior year have been reclassified to conform to the current presentation.

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	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Segment and Consolidated Operating Results (in thousands):				
Revenues and reimbursable expenses:				
Huron Healthcare	$ 86,957	$ 74,999	$ 244,648	$ 201,171
Huron Legal	45,263	46,153	131,296	133,443
Huron Education and Life Sciences	34,806	33,863	107,666	93,373
Huron Financial	7,223	6,689	25,068	16,821
All Other	486	184	500	388
Total revenues	174,735	161,888	509,178	445,196
Total reimbursable expenses	17,542	13,470	51,001	41,820
Total revenues and reimbursable expenses	$ 192,277	$ 175,358	$ 560,179	$ 487,016
Operating income (loss):				
Huron Healthcare	$ 30,772	$ 33,868	$ 91,440	$ 69,778
Huron Legal	15,138	11,479	28,869	33,489
Huron Education and Life Sciences	7,773	12,406	28,672	28,051
Huron Financial	664	1,763	7,995	1,659
All Other	(285)	(428)	(701)	(1,971)
Total segment operating income	54,062	59,088	156,275	131,006
Operating expenses and gains not allocated to segments	22,943	38,524	73,264	92,104
Total operating income	$ 31,119	$ 20,564	$ 83,011	$ 38,902
Other Operating Data (excluding All Other):				
Number of full-time billable consultants (at period end) (1):				
Huron Healthcare (5)	942	835	942	835
Huron Legal	143	134	143	134
Huron Education and Life Sciences	425	406	425	406
Huron Financial	62	65	62	65
Total (5)	1,572	1,440	1,572	1,440
Average number of full-time billable consultants (for the period) (1):				
Huron Healthcare (5)	926	824	891	807

Huron Legal	146	128	146	122
Huron Education and Life Sciences	425	386	431	352
Huron Financial	62	67	62	68
Total (5)	1,559	1,405	1,530	1,349
Full-time billable consultant utilization rate (2):				
Huron Healthcare (5)	80.2%	76.1%	83.5%	79.2%
Huron Legal	62.3%	66.9%	58.1%	68.8%
Huron Education and Life Sciences	64.4%	73.9%	66.7%	72.7%
Huron Financial	73.6%	56.9%	80.5%	55.2%
Total (5)	73.9%	73.8%	76.2%	75.4%

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Other Operating Data (continued):				
Full-time billable consultant average billing rate per hour (3):				
Huron Healthcare (5)	$ 230	$ 243	$ 211	$ 210
Huron Legal	$ 271	$ 265	$ 239	$ 246
Huron Education and Life Sciences	$ 215	$ 214	$ 215	$ 212
Huron Financial	$ 331			