

Huron Consulting Group Inc.
Form 10-Q
November 04, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10 Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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
(State or other jurisdiction of
incorporation or organization)**

**01-0666114
(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 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 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

Accelerated filer

Non-accelerated filer

Smaller reporting
company

Edgar Filing: Huron Consulting Group Inc. - Form 10-Q

(Do not check if a 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
o No

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 19, 2010, 21,892,913 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

Huron Consulting Group Inc.

**HURON CONSULTING GROUP INC.
INDEX**

	Page
<u>Part I Financial Information</u>	
<u>Item 1. Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Operations</u>	2
<u>Consolidated Statement of Stockholders' Equity</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Notes to Consolidated Financial Statements</u>	5
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>Item 4. Controls and Procedures</u>	41
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	41
<u>Item 1A. Risk Factors</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
<u>Item 3. Defaults Upon Senior Securities</u>	45
<u>Item 4. [Removed and Reserved]</u>	45
<u>Item 5. Other Information</u>	45
<u>Item 6. Exhibits</u>	46
<u>Signature</u>	47
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

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, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,280	\$ 5,715
Receivables from clients, net	76,243	73,760
Unbilled services, net	50,242	32,530
Income tax receivable	8,746	18,911
Deferred income taxes	13,156	16,338
Prepaid expenses and other current assets	14,929	19,078
Current assets of discontinued operations	12,451	26,451
Total current assets	182,047	192,783
Property and equipment, net	32,415	39,133
Deferred income taxes	19,813	21,298
Other non-current assets	13,463	14,134
Intangible assets, net	16,759	22,406
Goodwill	468,287	464,169
Non-current assets of discontinued operations		292
Total assets	\$ 732,784	\$ 754,215
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 8,754	\$ 7,150
Accrued expenses	28,548	29,185
Accrued payroll and related benefits	38,147	69,758
Accrued consideration for business acquisitions, current portion	2,000	63,188
Income tax payable	272	874
Deferred revenues	15,625	13,155
Current portion of capital lease obligations	68	278
Current liabilities of discontinued operations	3,906	9,405
Total current liabilities	97,320	192,993
Non-current liabilities:		
Deferred compensation and other liabilities	6,932	6,131
Accrued consideration for business acquisitions, net of current portion	2,000	
Capital lease obligations, net of current portion		5
Bank borrowings	269,500	219,000
Deferred lease incentives	7,704	8,681
Non-current liabilities of discontinued operations		416

Total non-current liabilities	286,136	234,233
Stockholders equity		
Common stock; \$0.01 par value; 500,000,000 shares authorized; 23,190,037 and 22,624,515 shares issued at September 30, 2010 and December 31, 2009, respectively	220	213
Treasury stock, at cost, 1,266,347 and 995,409 shares at September 30, 2010 and December 31, 2009, respectively	(62,144)	(51,561)
Additional paid-in capital	356,459	335,272
Retained earnings	56,197	43,858
Accumulated other comprehensive loss	(1,404)	(793)
Total stockholders equity	349,328	326,989
Total liabilities and stockholders equity	\$ 732,784	\$ 754,215

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

Table of Contents

HURON CONSULTING GROUP INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues and reimbursable expenses:				
Revenues	\$ 145,442	\$ 149,013	\$ 408,838	\$ 417,574
Reimbursable expenses	12,860	12,731	36,849	36,892
Total revenues and reimbursable expenses	158,302	161,744	445,687	454,466
Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses):				
Direct costs	87,250	91,012	255,194	257,667
Intangible assets amortization	886	961	2,659	3,734
Reimbursable expenses	12,920	12,718	36,915	36,896
Total direct costs and reimbursable expenses	101,056	104,691	294,768	298,297
Operating expenses:				
Selling, general and administrative	26,658	27,202	84,750	88,943
Restructuring charges	295	1,942	1,460	1,942
Restatement related expenses	1,056	13,042	4,243	13,427
Litigation settlement			4,764	
Depreciation and amortization	4,608	5,484	14,074	16,673
Impairment charge on goodwill		67,034		67,034
Other gain				2,687
Operating income (loss)	24,629	(57,651)	41,628	(29,163)
Other income (expense):				
Interest expense, net of interest income	(4,040)	(3,256)	(10,548)	(9,010)
Other income	261	1,020	43	1,190
Total other expense	(3,779)	(2,236)	(10,505)	(7,820)
Income (loss) from continuing operations before income tax expense	20,850	(59,887)	31,123	(36,983)
Income tax expense (benefit)	9,797	(18,541)	13,875	(6,965)
Net income (loss) from continuing operations	11,053	(41,346)	17,248	(30,018)
Loss from discontinued operations (including gain on disposal of \$1.2 million for the three and nine months ended September 30, 2010), net of tax	(3,603)	(22,648)	(4,909)	(17,254)
Net income (loss)	\$ 7,450	\$ (63,994)	\$ 12,339	\$ (47,272)

Net earnings (loss) per basic share:								
Income (loss) from continuing operations	\$	0.54	\$	(2.04)	\$	0.84	\$	(1.50)
Loss from discontinued operations, net of tax	\$	(0.18)	\$	(1.12)	\$	(0.24)	\$	(0.86)
Net income (loss)	\$	0.36	\$	(3.16)	\$	0.60	\$	(2.36)

Net earnings (loss) per diluted share:								
Income (loss) from continuing operations	\$	0.53	\$	(2.04)	\$	0.83	\$	(1.50)
Loss from discontinued operations, net of tax	\$	(0.17)	\$	(1.12)	\$	(0.23)	\$	(0.86)
Net income (loss)	\$	0.36	\$	(3.16)	\$	0.60	\$	(2.36)

Weighted average shares used in calculating earnings
(loss) per share:

Basic	20,619	20,239	20,484	20,061
Diluted	20,849	20,239	20,702	20,061

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

Table of Contents

HURON CONSULTING GROUP INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(In thousands, except share amounts)
(Unaudited)

	Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated	Stockholders Equity
	Shares	Amount				Other Comprehensive Income (Loss)	
Balance at December 31, 2009	21,330,311	\$ 213	\$ (51,561)	\$ 335,272	\$ 43,858	\$ (793)	\$ 326,989
Comprehensive income:							
Net income					12,339		12,339
Foreign currency translation adjustment, net of tax						38	38
Unrealized loss on cash flow hedging instrument, net of tax						(649)	(649)
Total comprehensive income							11,728
Issuance of common stock in connection with:							
Restricted stock awards, net of cancellations	604,761	6	(9,204)	9,198			
Exercise of stock options	45,221	1		39			40
Share-based compensation				15,904			15,904
Shares redeemed for employee tax withholdings			(1,379)				(1,379)
Income tax expense on share- based compensation				(3,954)			(3,954)
Balance at September, 30, 2010	21,980,293	\$ 220	\$ (62,144)	\$ 356,459	\$ 56,197	\$ (1,404)	\$ 349,328

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

Table of Contents

HURON CONSULTING GROUP INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months ended September	
	30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 12,339	\$ (47,272)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,840	21,038
Share-based compensation	16,681	16,574
Non-cash compensation		8,333
Allowances for doubtful accounts and unbilled services	4,408	3,527
Deferred income taxes	2,704	(44,883)
Loss on disposal of property and equipment	198	
Gain on sale of business	(1,232)	
Impairment charge on goodwill		106,000
Other gain		(2,686)
Changes in operating assets and liabilities, net of businesses acquired:		
Decrease (increase) in receivables from clients	4,273	(21,620)
Increase in unbilled services	(16,968)	(24,167)
Decrease in current income tax receivable / payable, net	8,778	5,306
Decrease in other assets	20	308
(Decrease) increase in accounts payable and accrued liabilities	(1,717)	16,246
(Decrease) increase in accrued payroll and related benefits	(37,412)	14,943
Increase (decrease) in deferred revenues	2,000	(3,879)
 Net cash provided by operating activities	 10,912	 47,768
 Cash flows from investing activities:		
Purchases of property and equipment, net	(4,691)	(10,971)
Net surrender of (investment in) life insurance policies	540	(1,424)
Purchases of businesses	(65,230)	(48,370)
Sales of businesses	7,942	
 Net cash used in investing activities	 (61,439)	 (60,765)
 Cash flows from financing activities:		
Proceeds from exercise of stock options	40	160
Shares redeemed for employee tax withholdings	(1,379)	(3,163)
Tax benefit from share-based compensation	720	7,813
Proceeds from borrowings under credit facility	297,500	202,000
Repayments on credit facility	(247,000)	(180,500)
Payments of capital lease obligations	(215)	(283)

Net cash provided by financing activities	49,666	26,027
Effect of exchange rate changes on cash	1,147	(405)
Net increase in cash and cash equivalents	286	12,625
Cash and cash equivalents at beginning of the period	6,459	14,106
Cash and cash equivalents at end of the period ⁽¹⁾	\$ 6,745	\$ 26,731

(1) Cash and cash equivalents presented herein includes \$0.5 million and \$0.8 million of cash and cash equivalents classified as discontinued operations as of September 30, 2010 and 2009, respectively.

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

Table of Contents

HURON CONSULTING GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular amounts in thousands, except per share amounts)
(Unaudited)

1. Description of Business

We are a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, comply with complex regulations, resolve disputes, recover from distress, leverage technology, and stimulate growth. We team with our clients to deliver sustainable and measurable results. Our clients include a wide variety of both financially sound and distressed organizations, including leading academic institutions, healthcare organizations, Fortune 500 companies, medium-sized businesses, and the law firms that represent these various organizations.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements reflect the results of operations and cash flows for the three and nine months ended September 30, 2010 and 2009. 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 presentation 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, 2009.

Certain amounts reported in the previous year have been reclassified to conform to the 2010 presentation. Our results for any interim period are not necessarily indicative of results for a full year or any other interim period.

3. Restatement of Previously-Issued Financial Statements

In 2009, we filed the following amendments to restate our previously-issued financial statements for the years ended December 31, 2008, 2007 and 2006, as well as the three months ended March 31, 2009:

Amendment No. 1 on Form 10-K/A, filed with the SEC on August 17, 2009, to our annual report on Form 10-K for the year ended December 31, 2008, originally filed on February 24, 2009.

Amendment No. 1 on Form 10-Q/A, filed with the SEC on August 17, 2009, to our quarterly report on Form 10-Q for the period ended March 31, 2009, originally filed on April 30, 2009.

The restatement related to the accounting for certain acquisition-related payments received by the selling shareholders of four acquired businesses (the Acquired Businesses). Pursuant to the purchase agreements for each of these acquisitions, payments were made by us to the selling shareholders (1) upon closing of the transaction, (2) in some cases, upon the Acquired Businesses achieving specific financial performance targets over a number of years (earn-outs), and (3) in one case, upon the buy-out of an obligation to make earn-out payments. These payments are collectively referred to as acquisition-related payments. Certain acquisition-related payments were subsequently redistributed by such selling shareholders among themselves in amounts that were not consistent with their ownership interests on the date we acquired the businesses (the Shareholder Payments) and to other select client-serving and administrative Company employees (the Employee Payments) based, in part, on continuing employment with the Company or the achievement of personal performance measures. The restatement was necessary because we failed to account for the Shareholder Payments and the Employee Payments in accordance with GAAP. The Shareholder Payments and the Employee Payments were required to be reflected as non-cash compensation expense of Huron, and the selling shareholders were deemed to have made a capital contribution to Huron. The payments were made directly by the selling shareholders from the acquisition proceeds they received from us and, accordingly, the correction of these errors had no effect on our net cash flows. The acquisition-related payments made by us to the selling shareholders represented purchase consideration. As such, these payments, to the extent that they exceeded the net of the fair value assigned to assets acquired and liabilities assumed, were properly recorded as goodwill, in accordance with GAAP.

Effective August 1, 2009, the Company amended its agreements with the selling shareholders of the two Acquired Businesses for which the Company had ongoing obligations to make future earn-out payments. The amendments provided that future earn-outs would be distributed only to the applicable selling shareholders and only in accordance with their equity interests on the date we acquired the related Acquired Business with no required continuing employment and that no further Shareholder Payments or Employee Payments would be made. Accordingly, all earn-out payments related to such

Table of Contents

HURON CONSULTING GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except per share amounts)
(Unaudited)

Acquired Businesses made on or after August 1, 2009, have been, and will continue to be, accounted for as additional purchase consideration and not also as non-cash compensation expense. Additional earn-out payment obligations, payable through December 31, 2011, currently remain with respect to only one Acquired Business.

As a result of the correction of the accounting errors, which were not tax deductible, our interim quarterly provision for income taxes decreased in certain periods and increased in others, with a corresponding change in income tax receivable or payable. There was no change to our provision for income taxes or our tax accounts on an annual basis. In August, 2009, the SEC commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. As often happens in these circumstances, the United States Attorney's Office (USAO) for the Northern District of Illinois has contacted our counsel. The USAO made a telephonic request for copies of certain documents that we previously provided to the SEC, which we have voluntarily provided to the USAO.

In addition, several purported shareholder class action complaints, since consolidated, and derivative lawsuits have been filed in connection with the restatement. See note 14. Commitments, Contingencies and Guarantees for a discussion of the SEC investigations, the USAO's request for certain documents, and the purported private shareholder class action lawsuit and derivative lawsuits.

For the three and nine months ended September 30, 2010, expenses incurred in connection with the restatement totaled \$1.1 million and \$4.2 million, respectively, and were primarily comprised of legal fees. For the three and nine months ended September 30, 2009, expenses incurred in connection with the restatement totaled \$13.0 million and \$13.4 million, respectively, and were primarily comprised of legal and accounting fees, as well as the settlement costs of an indemnification claim arising in connection with a representation and warranty in a purchase agreement for a previous acquisition.

4. New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance related to fair value measurements and disclosures. The guidance requires disclosure of details of significant transfers in and out of Level 1 and Level 2 fair value measurements. The guidance also clarifies the existing disclosure requirements for the level of disaggregation of fair value measurements and the disclosures on inputs and valuation techniques. The company adopted these provisions effective January 1, 2010. The adoption did not have a significant impact on our consolidated financial statements. In addition, the guidance will also require the presentation of purchases, sales, issuances and settlements within Level 3 on a gross basis rather than a net basis. This additional guidance pertaining to Level 3 fair value measurements is effective for fiscal years beginning after December 15, 2010, and for interim reporting periods within those fiscal years. The guidance will be effective for us beginning on January 1, 2011. We do not expect the application of this guidance to have a significant impact on our financial statements.

In October 2009, the FASB issued new guidance regarding revenue arrangements with multiple deliverables. This new guidance requires companies to allocate revenue in arrangements involving multiple deliverables based on the estimated selling price of each deliverable, even though such deliverables are not sold separately either by the company or by other vendors. This new guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. This pronouncement will be effective for us beginning on January 1, 2011. We are currently evaluating the impact that the adoption of this pronouncement may have on our future financial position, results of operations, earnings per share, and cash flows.

In June 2009, the FASB issued authoritative guidance to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This guidance requires an enterprise to perform an ongoing analysis to determine whether the enterprise has a controlling financial interest in a variable interest entity. We adopted this pronouncement effective January 1, 2010. The adoption of this pronouncement did not have any impact on our financial statements.

Table of Contents

HURON CONSULTING GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Tabular amounts in thousands, except per share amounts)
(Unaudited)

5. Discontinued Operations

Since December 31, 2009, we have undertaken several separate initiatives to divest certain practices within the Financial Consulting 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. On September 30, 2010, we completed a sale of a portion of the Disputes and Investigations (D&I) practice and wound down the remaining practice operations as of that same date. Additionally, during the third quarter of 2010 we exited the utilities consulting (Utilities) practice. In December 2009, our Board approved a plan to divest the businesses that included the international operations of our Japan office (Japan) and the strategy business MS Galt & Co LLC (Galt), which we acquired in April 2006. We exited Galt with the December 31, 2009 sale of the business back to its three original principals. We exited Japan effective June 30, 2010 via a wind down of the business. The Company recognized a gain of \$1.2 million in connection with the sale of D&I and a loss of \$0.4 million in connection with the sale of Galt. No gain or loss was recorded for the disposal of the Utilities practice or the Japan operations.

As a result of these actions, the operating results of D&I, Utilities, Japan, and Galt are reported as discontinued operations. All other operations of the business are considered continuing operations and unless otherwise noted, all amounts discussed within this Item I. Consolidated Financial Statements refer to amounts from continuing operations. Amounts previously reported have been reclassified to conform to this presentation in accordance with FASB ASC Topic 205 Presentation of Financial Statements to allow for meaningful comparison of continuing operations. The Consolidated Balance Sheet as of September 30, 2010 and December 31, 2009 aggregates amounts associated with the discontinued operations as described above.

Summarized operating results of discontinued operations are presented in the following table (amounts in thousands):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues	\$ 4,089	\$ 23,214	\$26,470	\$83,510
Loss from discontinued operations before income tax expense ⁽¹⁾⁽²⁾⁽³⁾	\$(3,813)	\$(36,435)	\$ (6,831)	