

Huron Consulting Group Inc.
Form 10-Q
August 17, 2009
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 June 30, 2009

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)

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

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

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

Table of Contents

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

As of August 10, 2009, approximately 21,519,896 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

Table of Contents

Huron Consulting Group Inc.

HURON CONSULTING GROUP INC.

INDEX

	Page
<u>Part I Financial Information</u>	
Item 1. <u>Consolidated Financial Statements</u>	
<u>Consolidated Balance Sheets</u>	1
<u>Consolidated Statements of Income</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 - 22
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23 - 45
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	45
<u>Part II Other Information</u>	
Item 1. <u>Legal Proceedings</u>	47
Item 1A. <u>Risk Factors</u>	48
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	50
Item 3. <u>Defaults Upon Senior Securities</u>	50
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	50
Item 5. <u>Other Information</u>	51
Item 6. <u>Exhibits</u>	51
<u>Signature</u>	52

Table of Contents**Huron Consulting Group Inc.****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)**

	June 30, 2009	December 31, 2008 (Restated)
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,627	\$ 14,106
Receivables from clients, net	86,412	88,071
Unbilled services, net	55,359	43,111
Income tax receivable	2,294	3,496
Deferred income taxes	16,523	15,708
Prepaid expenses and other current assets	16,472	14,563
Total current assets	182,687	179,055
Property and equipment, net	44,134	44,708
Deferred income taxes		2,064
Other non-current assets	16,932	15,722
Intangible assets, net	26,880	32,372
Goodwill	506,502	505,676
Total assets	\$ 777,135	\$ 779,597
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 7,887	\$ 6,505
Accrued expenses	23,586	27,361
Accrued payroll and related benefits	41,308	48,374
Accrued consideration for business acquisitions	15,075	60,099
Income tax payable	2,716	2,086
Deferred revenues	15,916	21,208
Current portion of capital lease obligations	368	518
Total current liabilities	106,856	166,151
Non-current liabilities:		
Deferred compensation and other liabilities	7,257	5,511
Capital lease obligations, net of current portion	94	204
Bank borrowings	295,000	280,000

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

Deferred lease incentives	8,958	8,705
Deferred income taxes	941	
Total non-current liabilities	312,250	294,420
Commitments and contingencies		
Stockholders' equity		
Common stock; \$0.01 par value; 500,000,000 shares authorized; 22,132,545 and 21,387,679 shares issued at June 30, 2009 and December 31, 2008, respectively	206	202
Treasury stock, at cost, 595,069 and 404,357 shares at June 30, 2009 and December 31, 2008, respectively	(31,735)	(21,443)
Additional paid-in capital	296,150	263,485
Retained earnings	93,453	76,731
Accumulated other comprehensive income (loss)	(45)	51
Total stockholders' equity	358,029	319,026
Total liabilities and stockholders' equity	\$ 777,135	\$ 779,597

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

Table of Contents**Huron Consulting Group Inc.**

HURON CONSULTING GROUP INC.
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008 (Restated)	2009	2008 (Restated)
Revenues and reimbursable expenses:				
Revenues	\$ 165,847	\$ 143,408	\$ 328,856	\$ 282,802
Reimbursable expenses	13,146	12,565	27,386	24,178
Total revenues and reimbursable expenses	178,993	155,973	356,242	306,980
Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses):				
Direct costs	105,411	98,876	208,304	187,340
Intangible assets amortization	1,087	24	2,773	48
Reimbursable expenses	13,105	12,578	27,405	24,188
Total direct costs and reimbursable expenses	119,603	111,478	238,482	211,576
Operating expenses:				
Selling, general and administrative	34,506	31,780	69,037	61,942
Depreciation and amortization	5,848	5,370	11,607	10,508
Total operating expenses	40,354	37,150	80,644	72,450
Other gain	2,687		2,687	
Operating income	21,723	7,345	39,803	22,954
Other income (expense):				
Interest expense, net of interest income	(3,020)	(2,294)	(5,753)	(4,127)
Other income (expense)	642	(35)	171	(329)
Total other expense	(2,378)	(2,329)	(5,582)	(4,456)
Income before provision for income taxes	19,345	5,016	34,221	18,498
Provision for income taxes	9,699	3,881	17,499	14,314
Net income	\$ 9,646	\$ 1,135	\$ 16,722	\$ 4,184
Earnings per share:				
Basic	\$ 0.49	\$ 0.06	\$ 0.85	\$ 0.24

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

Diluted	\$ 0.47	\$ 0.06	\$ 0.82	\$ 0.23
Weighted average shares used in calculating earnings per share:				
Basic	19,752	17,558	19,641	17,465
Diluted	20,405	18,178	20,329	18,197

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

- 2 -

Table of Contents**Huron Consulting Group Inc.****HURON CONSULTING GROUP INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY****(In thousands, except share amounts)****(Unaudited)**

	Common Stock		Treasury	Additional	Retained	Accumulated	Stockholders
	Shares	Amount	Stock	Paid-In	Earnings	Other	Equity
				Capital		Comprehensive	
						Income	
						(Loss)	
Balance at December 31, 2008 (Restated)	20,183,908	\$ 202	\$ (21,443)	\$ 263,485	\$ 76,731	\$ 51	\$ 319,026
Comprehensive income:							
Net income					16,722		16,722
Foreign currency translation adjustment, net of tax						(217)	(217)
Unrealized gain on cash flow hedging instrument, net of tax						121	121
Total comprehensive income							16,626
Issuance of common stock in connection with:							
Restricted stock awards, net of cancellations	300,409	3	(8,371)	8,368			
Exercise of stock options	70,563	1		115			116
Share-based compensation				13,438			13,438
Shares redeemed for employee tax withholdings			(1,921)				(1,921)
Income tax benefit on share-based compensation				3,637			3,637
Capital contributed by selling shareholders of acquired businesses				7,107			7,107
Balance at June 30, 2009	20,554,880	\$ 206	\$ (31,735)	\$ 296,150	\$ 93,453	\$ (45)	\$ 358,029

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

Table of Contents**Huron Consulting Group Inc.****HURON CONSULTING GROUP INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Six months ended	
	June 30,	
	2009	2008
		(Restated)
Cash flows from operating activities:		
Net income	\$ 16,722	\$ 4,184
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	14,380	10,556
Share-based compensation	13,438	13,568
Non-cash compensation	7,107	17,905
Allowances for doubtful accounts and unbilled services	2,451	1,172
Deferred income taxes	2,493	687
Non-cash gain and other	(2,686)	
Changes in operating assets and liabilities, net of businesses acquired:		
Increase in receivables from clients	(2)	(1,647)
Increase in unbilled services	(13,682)	(17,866)
Decrease in current income tax receivable / payable, net	1,773	5,289
Decrease (increase) in other assets	582	(5,755)
Increase in accounts payable and accrued liabilities	2,935	3,357
Decrease in accrued payroll and related benefits	(7,397)	(28,789)
(Decrease) increase in deferred revenues	(6,459)	2,099
Net cash provided by operating activities	31,655	4,760
Cash flows from investing activities:		
Purchases of property and equipment, net	(8,427)	(13,324)
Net investment in life insurance policies	(808)	(1,249)
Purchases of businesses, net of cash acquired	(47,065)	(34,554)
Net cash used in investing activities	(56,300)	(49,127)
Cash flows from financing activities:		
Proceeds from exercise of stock options	116	181
Shares redeemed for employee tax withholdings	(1,921)	(5,744)
Tax benefit from share-based compensation	3,637	6,384
Proceeds from borrowings under credit facility	164,500	173,500
Repayments on credit facility	(149,500)	(117,500)
Payments of capital lease obligations	(191)	(1,214)

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

Net cash provided by financing activities	16,641	55,607
Effect of exchange rate changes on cash	(475)	102
Net (decrease) increase in cash and cash equivalents	(8,479)	11,342
Cash and cash equivalents at beginning of the period	14,106	2,993
Cash and cash equivalents at end of the period	\$ 5,627	\$ 14,335

Supplemental disclosure of cash flow information:

Non-cash investing activity:

Issuance of note payable for purchase of a business	\$	\$ 23,000
---	----	-----------

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

Table of Contents

Huron Consulting Group Inc.

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 six months ended June 30, 2009 and 2008. The results of operations and cash flows for the three and six months ended June 30, 2008 have been restated as described in note 3. Restatement of Previously-Issued Financial Statements. These financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC). 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 accounting principles generally accepted in the United States of America (GAAP). These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008 included in Amendment No. 1 on Form 10-K/A and Amendment No. 1 on Form 10-Q/A for the period ended March 31, 2009. 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 this quarterly report on Form 10-Q we are restating the following previously-issued financial statements:

Our consolidated balance sheet as of December 31, 2008;

Our consolidated statements of income for the three and six months ended June 30, 2008; and

Our consolidated statement of cash flows for the six months ended June 30, 2008.

We have also 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 relates to four businesses that we acquired between 2005 and 2007 (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

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

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.

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. Payments made upon the closing of the acquisition were recorded as goodwill on the date of closing. Earn-out payments were recorded as purchase consideration resulting in additional goodwill when the financial performance targets were met by the Acquired Businesses. The payment made upon the buy-out of an obligation to make earn-out payments was recorded as goodwill on the date of the buy-out.

It recently came to the attention of the Audit Committee of our Board of Directors that, in connection with one of these acquisitions, the selling shareholders had an agreement among themselves to reallocate a portion of their earn-outs to an employee of the Company who was not a selling shareholder. Following this discovery, the Audit Committee commenced an inquiry into the relevant facts and circumstances of all of our prior acquisitions to determine if similar situations existed. The Audit Committee notified the Company's independent auditors who had not previously been aware of the Shareholder

Table of Contents

Huron Consulting Group Inc.

Payments and the Employee Payments (in each case, as defined below).

This inquiry resulted in the discovery that the selling shareholders of the Acquired Businesses made one or both of the following types of payments:

- 1) The selling shareholders redistributed portions of their acquisition-related payments among themselves in amounts that were not consistent with their ownership interests on the date we acquired the business (Shareholder Payments). These Shareholder Payments were dependent, in part, on continuing employment with the Company or on the achievement of personal performance measures.
- 2) The selling shareholders redistributed portions of their acquisition-related payments to certain of our employees who were not selling shareholders of the Acquired Businesses (Employee Payments). These Employee Payments were dependent on continuing employment with the Company or on the achievement of personal performance measures. The Company employees who received the Employee Payments were client-serving and administrative employees of the respective Acquired Businesses at the date such businesses were acquired by us as well as similar employees hired by or assigned to the respective Acquired Businesses after the date of such acquisitions.

This restatement is necessary because we failed to account for the Shareholder Payments and the Employee Payments in accordance with GAAP. The selling shareholders were not prohibited from making the Shareholder Payments or the Employee Payments under the terms of the purchase agreements with the Company for the acquisitions of the Acquired Businesses. However, under GAAP, including guidance promulgated by the SEC, actions of economic interest holders in a company may be imputed to the company itself. The selling shareholders of the Acquired Businesses meet the criteria of economic interest holders of Huron due to their ability to earn additional consideration from Huron. As such, when the selling shareholders redistribute acquisition-related payments among themselves or redistribute a portion of their acquisition-related payments to our employees who were not selling shareholders based on employment or performance-based criteria, these payments are viewed as resulting from services that are assumed to have benefited Huron and must therefore be recorded as non-cash compensation expense incurred by Huron under GAAP. Accordingly, the Employee Payments and the Shareholder Payments are imputed to us. In the case of the Shareholder Payments, such payments are imputed to us even when the amounts that are received by the selling shareholders in the redistribution do not differ significantly from the amounts the selling shareholders would have received if the portion of the acquisition-related payments redistributed based on performance or employment had been distributed solely in accordance with the ownership interests of the applicable selling shareholders on the date we acquired the business. In effect, the Shareholder Payments and the Employee Payments are in substance a second and separate transaction from our acquisition of the Acquired Businesses, which should have been recorded as a separate non-cash accounting entry. Both the Shareholder Payments and the Employee Payments are therefore required to be reflected as non-cash compensation expense of Huron, and the selling shareholders are deemed to have made a capital contribution to Huron. The entries are non-cash because the payments were made directly by the selling shareholders from the acquisition proceeds they received from us. We did not expend additional cash with respect to the compensation charge.

Based on its inquiry into the facts and circumstances underlying the restatement, which is now substantially complete, the Audit Committee determined that the Shareholder Payments and Employee Payments were not properly recorded in our financial statements because senior management did not properly take into account the impact of the selling shareholders' redistribution of the acquisition-related payments when determining the appropriate accounting treatment. In some cases, senior management was unaware of the redistributions. In other cases, senior management was aware of the redistributions but either misunderstood or misapplied the appropriate accounting guidance. As a result, the facts and circumstances surrounding the Shareholder Payments and Employee Payments were not fully described in representation letters previously provided to our independent auditors.

In light of these determinations and given the magnitude of the accounting errors underlying the restatement, our Board of Directors concluded that it was appropriate for the Company to appoint a new Chairman, a new Chief Executive Officer, a new Chief Financial Officer and a new Chief Accounting Officer. Our Board of Directors and Gary Holdren, our then Chief Executive Officer, agreed that he should resign as Chairman of the Board and Chief Executive Officer. George Massaro, who was the then Vice Chairman of the Board of Directors, was elected as our Non-Executive Chairman of the Board of Directors. James Roth, one of the founders of the Company, was named Chief Executive Officer. James Rojas, another founder of the Company, was named Chief Financial Officer, succeeding Gary Burge who will remain as

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

Treasurer and remain with the Company until the end of 2009. Wayne Lipski, previously Chief Accounting Officer, will be leaving the Company.

- 6 -

Table of Contents**Huron Consulting Group Inc.**

Based on the results of the Company's inquiry into the acquisition-related payments to date and the agreement amendments described below, we currently anticipate that future earn-outs will only be accounted for as additional purchase consideration and not also as non-cash compensation expense. Effective August 1, 2009, the selling shareholders of two of the Acquired Businesses each amended certain agreements related to the earn-outs to provide that future earn-outs will be distributed only to the applicable selling shareholders and only in accordance with their equity interests on the date we acquired the business with no required continuing employment, and no further Shareholder Payments or Employee Payments will be made. However, there can be no assurance that additional information will not be discovered that will require future acquisition-related payments pertaining to the Acquired Businesses to continue to be accounted for as non-cash compensation expense, which would be material to our results of operations through 2011. The earn-out payments for one of the Acquired Businesses are payable through March 31, 2010, and the earn-out payments for a second Acquired Business are payable through December 31, 2011. There are no additional earn-out obligations related to the other two Acquired Businesses.

On August 4, 2009, we signed an Acknowledgment and Consent Agreement with respect to our \$460 Million Revolving Credit and Term Loan Credit Agreement (the "Credit Agreement"). We requested an advance of \$6.0 million under the revolving credit facility to fund current working capital needs during the interim period while we restate our financial statements. The lenders agreed to this request subject to a reservation of rights under the Credit Agreement. This advance, together with collections on our accounts receivable, provided adequate working capital during the interim period prior to the restatement of our financial statements. We expect to be in full compliance with the financial covenants under the Credit Agreement once the restatement is completed and compliance certificates for the second quarter of 2009 are provided to the lenders. We have been engaging, and expect to continue to engage, in regular discussions with our lenders.

On July 31, 2009, immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day next following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in the price of our common stock, we expect to engage in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009. If following such analysis we are required to record a non-cash goodwill impairment charge, we may not be in compliance with the financial covenants in the Credit Agreement. In the absence of an amendment or waiver from our lenders, failure to comply with such covenants may result in (1) a default interest rate of 2% being charged in addition to the interest rate as determined under the Credit Agreement on all of our outstanding indebtedness under the Credit Agreement, (2) our not being able to make additional borrowings under the Credit Agreement, which we rely on to fund our operations, and (3) the lenders requiring us to repay our outstanding indebtedness under the Credit Agreement, which totaled \$295 million as of June 30, 2009. There can be no assurance that we will remain in compliance with the financial covenants under the Credit Agreement or, if we are not, that we will obtain the necessary amendments or waivers and, even if we are able to obtain them, such amendments or waivers may subject us to terms materially less favorable to us than those in our current agreement.

The SEC is commencing an investigation with respect to the circumstances that led to the restatement. We intend to cooperate fully with the SEC in its investigation. In addition, the following purported shareholder class action complaints have been filed in connection with our restatement in the United States District Court for the Northern District of Illinois: (1) a complaint in the matter of Jason Hughes v. Huron Consulting Group Inc., Gary E. Holdren and Gary L. Burge, filed on August 4, 2009; (2) a complaint in the matter of Dorothy DeAngelis v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (3) a complaint in the matter of Noel M. Parsons v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (4) a complaint in the matter of Adam Liebman v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 5, 2009; (5) a complaint in the matter of Gerald Tobin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and PricewaterhouseCoopers LLP, filed on August 7, 2009 and (6) Gary Austin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 7, 2009. The complaints assert claims under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder and contend that the Company and the individual defendants issued false and misleading statements regarding the Company's financial results and compliance with GAAP. We intend to defend vigorously the actions.

Given the uncertain nature of the SEC investigation with respect to the circumstances that led to the restatement and the private shareholder class action lawsuits in respect of the restatement, and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the SEC investigation and the private lawsuits, we are unable to predict the ultimate

Table of Contents**Huron Consulting Group Inc.**

outcome of the SEC investigation or the private lawsuits, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the SEC investigation or the private lawsuits. Any such liability could be material.

As a result of the correction of the non-tax deductible errors related to the accounting for the acquisition-related payments, we recalculated our provision for income taxes for each of the quarterly periods using the annual effective income tax rate method in accordance with Statement of Financial Accounting Standards, or SFAS, No. 109, Accounting for Income Taxes. As such, 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. However, there is no change to our provision for income taxes or our tax accounts on an annual basis. While the correction of these errors significantly reduced our net income and earnings per share for each of the affected periods, it had no effect on our total assets, total liabilities, or total stockholders' equity on an annual basis. Further, the correction of these errors had no effect on our net cash flows. The table below summarizes the impact of the restatement on our consolidated statements of income for the three and six months ended June 30, 2008 (in thousands, except earnings per share).

	June 30, 2008	
	Three Months Ended	Six Months Ended
Shareholder Payments	\$ 11,546	\$ 15,227
Employee Payments	1,339	2,678
Total Non-cash Compensation Expense	\$ 12,885	\$ 17,905
Impact on Consolidated Statement Of Income:		
Increase in Direct Costs	\$ 12,885	\$ 17,905
Increase (Decrease) in Provision for Income Taxes	\$ (4,211)	\$ (2,067)
Decrease in Net Income	\$ (8,674)	\$ (15,838)
Decrease in Basic Earnings Per Share	\$ (0.50)	\$ (0.91)
Decrease in Diluted Earnings Per Share	\$ (0.48)	\$ (0.87)

The tables below present the effects of the restatement on our previously-issued consolidated financial statements as of December 31, 2008, for the three and six months ended June 30, 2008, and for the three months ended March 31, 2009.

Table of Contents**HURON CONSULTING GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(Tabular amounts in thousands, except per share amounts)

Consolidated Balance Sheet

	As of December 31, 2008		
	As Reported	Adjustments	Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 14,106		\$ 14,106
Receivables from clients, net	88,071		88,071
Unbilled services, net	43,111		43,111
Income tax receivable	3,496		3,496
Deferred income taxes	15,708		15,708
Prepaid expenses and other current assets	14,563		14,563
Total current assets	179,055		179,055
Property and equipment, net	44,708		44,708
Deferred income taxes	2,064		2,064
Other non-current assets	15,722		15,722
Intangible assets, net	32,372		32,372
Goodwill	505,676		505,676
Total assets	\$ 779,597		\$ 779,597
Liabilities and stockholders equity			
Current liabilities:			
Accounts payable	\$ 6,505		\$ 6,505
Accrued expenses	27,361		27,361
Accrued payroll and related benefits	48,374		48,374
Accrued consideration for business acquisitions	60,099		60,099
Income tax payable	2,086		2,086
Deferred revenues	21,208		21,208
Bank borrowings			
Note payable and current portion of capital lease obligations	518		518
Total current liabilities	166,151		166,151
Non-current liabilities:			
Deferred compensation and other liabilities	5,511		5,511
Capital lease obligations, net of current portion	204		204
Bank borrowings	280,000		280,000
Deferred lease incentives	8,705		8,705
Total non-current liabilities	294,420		294,420
Commitments and contingencies			
Stockholders equity			
Common stock; \$0.01 par value; 500,000,000 shares authorized	202		202
Treasury stock, at cost	(21,443)		(21,443)
Additional paid-in capital	211,464	52,021	263,485
Retained earnings	128,752	(52,021)	76,731

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

Accumulated other comprehensive income (loss)	51	51
Total stockholders' equity	319,026	319,026
Total liabilities and stockholders' equity	\$ 779,597	\$ 779,597

- 9 -

Table of Contents**HURON CONSULTING GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(Tabular amounts in thousands, except per share amounts)

Consolidated Statements of Income (Unaudited)

	Three months ended March 31, 2009			Three months ended June 30, 2008			Six months ended June 30, 2008		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
Revenues and reimbursable expenses:									
Revenues	\$ 163,009		\$ 163,009	\$ 143,408		\$ 143,408	\$ 282,802		\$ 282,802
Reimbursable expenses	14,240		14,240	12,565		12,565	24,178		24,178
Total revenues and reimbursable expenses	177,249		177,249	155,973		155,973	306,980		306,980
Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses):									
Direct costs	99,131	3,762	102,893	85,991	12,885	98,876	169,435	17,905	187,340
Intangible assets amortization	1,686		1,686	24		24	48		48
Reimbursable expenses	14,300		14,300	12,578		12,578	24,188		24,188
Total direct costs and reimbursable expenses	115,117	3,762	118,879	98,593	12,885	111,478	193,671	17,905	211,576
Operating expenses:									
Selling, general and administrative	34,531		34,531	31,780		31,780	61,942		61,942
Depreciation and amortization	5,759		5,759	5,370		5,370	10,508		10,508
Restructuring charges									
Total operating expenses	40,290		40,290	37,150		37,150	72,450		72,450

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

Operating income	21,842	(3,762)	18,080	20,230	(12,885)	7,345	40,859	(17,905)	22,954
Other income (expense):									
Interest income (expense), net	(2,733)		(2,733)	(2,294)		(2,294)	(4,127)		(4,127)
Other income (expense)	(471)		(471)	(35)		(35)	(329)		(329)
Total other expense	(3,204)		(3,204)	(2,329)		(2,329)	(4,456)		(4,456)
Income before provision for income taxes	18,638	(3,762)	14,876	17,901	(12,885)	5,016	36,403	(17,905)	18,498
Provision for income taxes	8,387	(587)	7,800	8,092	(4,211)	3,881	16,381	(2,067)	14,314
Net income	\$ 10,251	(3,175)	\$ 7,076	\$ 9,809	(8,674)	\$ 1,135	\$ 20,022	(15,838)	\$ 4,184
Earnings per share:									
Basic	\$ 0.52	(0.16)	\$ 0.36	\$ 0.56	(0.50)	\$ 0.06	\$ 1.15	(0.91)	\$ 0.24
Diluted	\$ 0.51	(0.16)	\$ 0.35	\$ 0.54	(0.48)	\$ 0.06	\$ 1.10	(0.87)	\$ 0.23
Weighted average shares used in calculating earnings per share:									
Basic	19,528		19,528	17,558		17,558	17,465		17,465
Diluted	20,252		20,252	18,178		18,178	18,197		18,197

- 10 -

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(Tabular amounts in thousands, except per share amounts)

Consolidated Statement of Cash Flows (Unaudited)

	As Reported	Six months ended June 30, 2008 Adjustments	Restated
Cash flows from operating activities:			
Net income	\$ 20,022	(15,838)	\$ 4,184
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,556		10,556
Share-based compensation	13,568		13,568
Non-cash compensation		17,905	17,905
Allowances for doubtful accounts and unbilled services	1,172		1,172
Deferred income taxes	687		687
Other			
Change in operating assets and liabilities, net of businesses acquired:			
Increase in receivables from clients	(1,647)		(1,647)
Increase in unbilled services	(17,866)		(17,866)
Decrease in income tax receivable/payable, net	7,356	(2,067)	5,289
Increase in other assets	(5,755)		(5,755)
Increase in accounts payable and accrued liabilities	3,357		3,357
Decrease in accrued payroll and related benefits	(28,789)		(28,789)
Increase in deferred revenues	2,099		2,099
Net cash provided by operating activities	4,760		4,760
Cash flows from investing activities:			
Purchases of property and equipment, net	(13,324)		(13,324)
Net investment in life insurance policies	(1,249)		(1,249)
Purchases of businesses, net of cash acquired	(34,554)		(34,554)
Net cash used in investing activities	(49,127)		(49,127)
Cash flows from financing activities:			
Proceeds from exercise of stock options	181		181
Shares redeemed for employee tax withholdings	(5,744)		(5,744)
Tax benefit from share-based compensation	6,384		6,384
Proceeds from borrowings under credit facility	173,500		173,500
Repayments on credit facility	(117,500)		(117,500)
Principal payment of notes payable and capital lease obligations	(1,214)		(1,214)
Net cash provided by financing activities	55,607		55,607
Effect of exchange rate changes on cash	102		102
Net increase (decrease) in cash and cash equivalents	11,342		11,342

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

Cash and cash equivalents at beginning of the period	2,993	2,993
Cash and cash equivalents at end of the period	\$ 14,335	\$ 14,335

- 11 -

Table of Contents

Huron Consulting Group Inc.

4. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements in financial statements, but standardizes its definition and guidance in GAAP. We adopted SFAS No. 157 effective beginning on January 1, 2008 for financial assets and financial liabilities, which did not have any impact on our financial statements. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157, which delayed by one year the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted SFAS No. 157 effective beginning on January 1, 2009 for nonfinancial assets and nonfinancial liabilities, which did not have any impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, (SFAS No. 141R). SFAS No. 141R was issued to improve the relevance, representational faithfulness, and comparability of information in financial statements about a business combination and its effects. This statement retains the purchase method of accounting for business combinations, but requires a number of changes. The changes that may have the most significant impact on us include: contingent consideration, such as earn-outs, will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled; acquisition-related transaction and restructuring costs will be expensed as incurred; previously-issued financial information will be revised for subsequent adjustments made to finalize the purchase price accounting; reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings, except in certain situations. In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingences, which requires an acquirer to recognize at fair value, an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value can be determined on the date of acquisition. We adopted SFAS No. 141R on a prospective basis effective beginning on January 1, 2009. For business combinations completed on or subsequent to the adoption date, the application of this statement may have a significant impact on our financial statements, the magnitude of which will depend on the specific terms and conditions of the transactions.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. SFAS No. 160 was issued to improve the relevance, comparability, and transparency of financial information provided in financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. We adopted SFAS No. 160 effective beginning on January 1, 2009. The adoption of this statement did not have any impact on our financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS No. 161 was issued to improve transparency of financial information provided in financial statements by requiring expanded disclosures about an entity's derivative and hedging activities. This statement requires entities to provide expanded disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. We adopted SFAS No. 161 effective beginning on