

Huron Consulting Group Inc.
Form 10-Q
August 08, 2006

**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, 2006

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer Accelerated filer Non-accelerated filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
o 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 July 31, 2006, 18,020,614 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

HURON CONSULTING GROUP INC.**INDEX**

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PART I ³/₄ 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, 2006 | December 31, 2005 |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,381 | \$ 31,820 |
| Receivables from clients, net | 38,472 | 29,164 |
| Unbilled services, net | 23,242 | 18,187 |
| Income tax receivable | 3,092 | 232 |
| Deferred income taxes | 14,747 | 12,553 |
| Other current assets | 5,211 | 5,799 |
| Total current assets | 88,145 | 97,755 |
| Property and equipment, net | 23,504 | 13,162 |
| Deferred income taxes | 3,951 | 2,154 |
| Deposits and other assets | 1,273 | 1,147 |
| Intangible assets, net | 3,085 | 844 |
| Goodwill | 35,501 | 14,637 |
| Total assets | \$ 155,459 | \$ 129,699 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,944 | \$ 2,671 |
| Accrued expenses | 9,846 | 4,357 |
| Accrued payroll and related benefits | 23,318 | 32,073 |
| Income tax payable | ³ / ₄ | 491 |
| Deferred revenues | 5,180 | 4,609 |
| Borrowings | 6,500 | ³ / ₄ |
| Current portion of notes payable and capital lease obligations | 1,141 | 1,282 |
| Total current liabilities | 48,929 | 45,483 |
| Non-current liabilities: | | |
| Accrued expenses and other liabilities | 604 | 274 |
| Notes payable and capital lease obligations, net of current portion | 1,132 | 2,127 |
| Deferred lease incentives | 10,175 | 6,283 |
| Total non-current liabilities | 11,911 | 8,684 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock; \$0.01 par value; 500,000,000 shares authorized; 17,720,301 and 17,397,312 shares issued at June 30, 2006 and December 31, 2005, respectively | 177 | 174 |
| Treasury stock, at cost, 294,341 and 148,933 shares at June 30, 2006 and December 31, 2005, respectively | (6,029) | (3,061) |
| Additional paid-in capital | 69,084 | 58,908 |
| Retained earnings | 31,387 | 19,511 |
| Total stockholders' equity | 94,619 | 75,532 |

| | | | | |
|---|----|---------|----|---------|
| Total liabilities and stockholders equity | \$ | 155,459 | \$ | 129,699 |
|---|----|---------|----|---------|

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

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

| | Three months ended | | Six months ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenues and reimbursable expenses: | | | | |
| Revenues | \$ 67,769 | \$ 50,517 | \$ 129,956 | \$ 97,277 |
| Reimbursable expenses | 6,691 | 4,691 | 12,130 | 9,061 |
| Total revenues and reimbursable expenses | 74,460 | 55,208 | 142,086 | 106,338 |
| Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses): | | | | |
| Direct costs | 37,436 | 28,754 | 73,426 | 54,698 |
| Intangible assets amortization | 1,640 | 385 | 1,716 | 385 |
| Reimbursable expenses | 6,795 | 4,704 | 12,333 | 9,091 |
| Total direct costs and reimbursable expenses | 45,871 | 33,843 | 87,475 | 64,174 |
| Operating expenses: | | | | |
| Selling, general and administrative | 15,713 | 12,106 | 30,554 | 23,829 |
| Depreciation and amortization | 1,569 | 1,109 | 3,077 | 1,956 |
| Total operating expenses | 17,282 | 13,215 | 33,631 | 25,785 |
| Operating income | 11,307 | 8,150 | 20,980 | 16,379 |
| Other income (expense): | | | | |
| Interest income (expense), net | (193) | 64 | 39 | 229 |
| Other income | ¾ | ¾ | ¾ | 1 |
| Total other income (expense) | (193) | 64 | 39 | 230 |
| Income before provision for income taxes | 11,114 | 8,214 | 21,019 | 16,609 |
| Provision for income taxes | 4,834 | 3,557 | 9,143 | 7,125 |
| Net income | \$ 6,280 | \$ 4,657 | \$ 11,876 | \$ 9,484 |
| Earnings per share: | | | | |
| Basic | \$ 0.39 | \$ 0.30 | \$ 0.73 | \$ 0.61 |
| Diluted | \$ 0.36 | \$ 0.28 | \$ 0.69 | \$ 0.57 |
| Weighted average shares used in calculating earnings per share: | | | | |
| Basic | 16,309 | 15,646 | 16,194 | 15,597 |
| Diluted | 17,244 | 16,773 | 17,120 | 16,725 |

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

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 | Total Stockholders' Equity |
|--|--------------|--------|----------------|----------------------------|-------------------|----------------------------|
| | Shares | Amount | | | | |
| Balance at December 31, 2005 | 17,397,312 | \$ 174 | \$ (3,061) | \$ 58,908 | \$ 11,876 | \$ 76,133 |
| Net income | ¾ | ¾ | ¾ | ¾ | 11,876 | 11,876 |
| Issuance of common stock in connection with: | | | | | | |
| Restricted stock awards, net of cancellations | 5,000 | ¾ | (1,954) | 1,954 | ¾ | ¾ |
| Exercise of stock options | 293,429 | 3 | ¾ | 231 | ¾ | 234 |
| Share-based compensation | ¾ | ¾ | ¾ | 4,721 | ¾ | 4,721 |
| Shares redeemed for employee tax withholdings | ¾ | ¾ | (1,014) | ¾ | ¾ | (1,014) |
| Income tax benefit on share-based compensation | ¾ | ¾ | ¾ | 3,270 | ¾ | 3,270 |
| Balance at June 30, 2006 | 17,695,741 | \$ 177 | \$ (6,029) | \$ 69,084 | \$ 31,387 | \$ 94,619 |

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

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

| | Six months ended June 30, | |
|---|------------------------------|-----------------------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 11,876 | \$ 9,484 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,793 | 2,341 |
| Deferred income taxes | (3,991) | (2,541) |
| Share-based compensation | 4,721 | 3,106 |
| Tax benefit from share-based compensation | ³ / ₄ | 1,369 |
| Allowances for doubtful accounts and unbilled services | 241 | 145 |
| Other | 134 | ³ / ₄ |
| Changes in operating assets and liabilities: | | |
| Increase in receivables from clients | (9,464) | (2,928) |
| Increase in unbilled services | (5,140) | (4,698) |
| Increase in income tax receivable | (2,860) | (309) |
| Decrease in other current assets and other | 450 | 19 |
| Increase (decrease) in accounts payable and accrued expenses | 4,894 | (1,184) |
| Decrease in accrued payroll and related benefits | (8,755) | (1,618) |
| Decrease in income tax payable | (491) | (720) |
| Increase in deferred revenues | 1,071 | 1,088 |
| Net cash (used in) provided by operating activities | (2,521) | 3,554 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (13,200) | (4,285) |
| Purchases of businesses, net of cash acquired | (20,562) | (12,366) |
| Net cash used in investing activities | (33,762) | (16,651) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 234 | 104 |
| Tax benefit from share-based compensation | 3,270 | ³ / ₄ |
| Shares redeemed for employee tax withholdings | (1,014) | ³ / ₄ |
| Proceeds from borrowings under line of credit | 35,600 | ³ / ₄ |
| Repayments on line of credit | (29,100) | ³ / ₄ |
| Principal payments of notes payable and capital lease obligations | (1,146) | ³ / ₄ |
| Net cash provided by financing activities | 7,844 | 104 |
| Net decrease in cash and cash equivalents | (28,439) | (12,993) |
| Cash and cash equivalents at beginning of the period | 31,820 | 28,092 |
| Cash and cash equivalents at end of the period | \$ 3,381 | \$ 15,099 |

Supplemental disclosure of cash flow information:

Cash paid during the period for:

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| | | | | |
|--|----|--------|----|-------|
| Income taxes | \$ | 13,217 | \$ | 9,327 |
| Interest | \$ | 186 | \$ | 63 |
| Non-cash investing and financing activities: | | | | |
| Liabilities incurred for purchases of businesses | \$ | 4,613 | \$ | 3,000 |

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)

1. Description of Business

Huron Consulting Group Inc. was formed on March 19, 2002. Huron Consulting Group Inc., together with its indirect wholly-owned operating subsidiaries, Huron Consulting Services LLC and Speltz & Weis LLC, (collectively, the “Company”), is an independent provider of financial and operational consulting services, whose clients include Fortune 500 companies, medium-sized businesses, leading academic institutions, healthcare organizations and the law firms that represent these various organizations.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair presentation of the Company’s 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. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2005 included in the Company’s annual report on Form 10-K and the Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2006. The Company’s results for any interim period are not necessarily indicative of results for a full year or any other interim period.

3. Share-based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), “Share-Based Payment,” (“SFAS No. 123R”). This statement requires that the costs of employee share-based payments be measured at fair value on the awards’ grant date and recognized in the financial statements over the requisite service period.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R using the modified prospective application transition method. Under this method, compensation cost for the portion of awards for which the requisite service has not yet been rendered that are outstanding as of the adoption date is recognized over the remaining service period. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123, as originally issued. All new awards and awards that are modified, repurchased, or cancelled after the adoption date are accounted for under the provisions of SFAS No. 123R. Prior periods have not been restated under this transition method. The Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to SFAS No. 123R, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur, which was the Company’s practice prior to the adoption of SFAS No. 123R. As of January 1, 2006, the cumulative effect of adopting the estimated forfeiture method was not material.

Prior to January 1, 2006, the Company accounted for share-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” and related interpretations and elected the disclosure option of SFAS No. 123 as amended by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure.” SFAS No. 123 requires that companies either recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value, or provide pro forma disclosure of net income and earnings per share in the notes to the financial statements. Accordingly, the

Company measured compensation expense for stock options as the excess, if any, of the estimated fair market value of the Company's stock at the date of grant over the exercise price. The following table details the effect on net income and earnings per share for the three and six months ended June 30, 2005 had compensation expense for the stock plans been recorded based on the fair value method under SFAS No. 123.

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

| | Three Months Ended June 30, 2005 | Six Months Ended June 30, 2005 |
|--|---|---|
| Net income | \$ 4,657 | \$ 9,484 |
| Add: Total share-based compensation expense included in reported net income, net of related tax effects | 1,014 | 1,857 |
| Deduct: Total share-based compensation expense determined under the fair value method for all awards, net of related tax effects | (1,054) | (1,946) |
| Pro forma net income | \$ 4,617 | \$ 9,395 |
| Earnings per share: | | |
| Basic - as reported | \$ 0.30 | \$ 0.61 |
| Basic - pro forma | \$ 0.30 | \$ 0.60 |
| Diluted - as reported | \$ 0.28 | \$ 0.57 |
| Diluted - pro forma | \$ 0.28 | \$ 0.56 |

Equity Incentive Plans

In 2004, the Company adopted the 2004 Omnibus Stock Plan (the "Omnibus Plan"), which replaced the Company's prior share-based compensation plans. The Omnibus Plan permits the grant of stock options, restricted stock, and other share-based awards valued in whole or in part by reference to, or otherwise based on, the Company's common stock. Under the Omnibus Plan, as originally adopted, a total of 2,141,000 shares of common stock were reserved for issuance to eligible employees, executive officers, independent contractors and outside directors. The Plan was amended effective as of May 2, 2006 to increase the number of shares of common stock available for issuance by 2,100,000. As of June 30, 2006, approximately 2,809,000 shares remain available for future issuance.

The Compensation Committee of the board of directors has the responsibility of interpreting the Omnibus Plan and determining all of the terms and conditions of share-based awards made under the Omnibus Plan, including when the awards will become exercisable or otherwise vest. Subject to acceleration under certain conditions, the majority of the Company's stock options and restricted stock vest annually, pro-rata over 4 years. All stock options have a ten-year contractual term.

The weighted average fair values of options granted during the six months ended June 30, 2006 and 2005 were \$15.31 and \$19.38, respectively, which were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for both periods:

| | |
|---------------------------------|------|
| Expected dividend yield | 0% |
| Expected volatility | 40% |
| Risk-free interest rate | 5.1% |
| Expected option life (in years) | 4 |

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

Stock option activity for the six months ended June 30, 2006 was as follows:

| | Number of Options (in thousands) | Weighted Average Exercise Price (in dollars) | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in millions) |
|------------------------------------|---|---|---|--|
| Outstanding at January 1, 2006 | 1,305 | \$ 2.15 | | |
| Granted: | | | | |
| Exercise price = fair market value | 8 | \$ 30.29 | | |
| Exercised | (294) | \$ 0.80 | | |
| Forfeited or expired | (67) | \$ 3.68 | | |
| Outstanding at June 30, 2006 | 952 | \$ 2.71 | 7.2 | \$ 30.8 |
| Exercisable at June 30, 2006 | 553 | \$ 1.99 | 6.9 | \$ 18.3 |

The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$8.5 million and \$2.1 million, respectively.

Restricted stock activity for the six months ended June 30, 2006 was as follows:

| | Number of Shares (in thousands) | Weighted Average Grant-Date Fair Value (in dollars) |
|-------------------------------------|--|--|
| Restricted stock at January 1, 2006 | 1,279 | \$ 19.24 |
| Granted | 43 | \$ 32.37 |
| Vested | (133) | \$ 21.29 |
| Forfeited | (113) | \$ 17.81 |
| Restricted stock at June 30, 2006 | 1,076 | \$ 19.67 |

The aggregate fair value of restricted stock that vested during the six months ended June 30, 2006 was \$3.7 million. There was no restricted stock vesting during the six months ended June 30, 2005. On July 1, 2006, the Company granted a total of 504,500 shares of restricted stock to certain employees. Although these restricted shares were not issued to the grantees until July 1, 2006, a grant date was established for measurement purposes under SFAS No. 123R on February 28, 2006, the date that the Company's Compensation Committee approved the award. As such, the Company began to recognize the expense relating to this award effective February 28, 2006.

Total share-based compensation cost recognized for the three months ended June 30, 2006 and 2005 was \$2.5 million and \$1.7 million, respectively, with related income tax benefits of \$1.0 million and \$0.7 million, respectively. Total share-based compensation cost recognized for the six months ended June 30, 2006 and 2005 was \$4.7 million and \$3.1 million, respectively, with related income tax benefits of \$1.9 million and \$1.3 million, respectively. As of June 30, 2006, there was \$31.6 million of total unrecognized compensation cost related to nonvested share-based awards. This cost is expected to be recognized over a weighted-average period of 3.2 years.

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

4. Business Combinations

Acquisition of MSGalt & Company, LLC

On April 3, 2006, the Company acquired substantially all of the assets of MSGalt & Company, LLC (“Galt”), a specialized advisory firm consisting of 25 consultants that designs and implements corporate-wide programs to improve shareholder returns. The aggregate purchase price of the acquisition was \$25.2 million, which consisted of \$20.4 million cash paid at closing, \$0.2 million of transaction costs, and \$4.6 million of additional purchase price earned by Galt during the quarter as certain performance targets were met. The Company financed this acquisition with cash on hand and borrowings of \$6.5 million under the Company’s bank credit agreement. Additional purchase consideration may be payable if specific performance targets are met over a four-year period. Such amounts will be recorded as an adjustment to goodwill if payable. Also, additional payments may be made based on the amount of revenues the Company receives from referrals made by Galt employees over a four-year period. Such amounts will be recorded as an expense if payable. The acquisition was accounted for under the purchase method of accounting. It was consummated on April 3, 2006 and the results of operations of Galt have been included within the Operational Consulting segment since that date.

The identifiable intangible assets that were acquired totaled \$4.3 million and have an estimated weighted average useful life of 20.0 months, which consisted of customer contracts totaling \$1.7 million (3.2 months weighted average useful life), customer relationships totaling \$1.4 million (6.1 months weighted average useful life), and non-competition agreements totaling \$1.2 million (60.0 months weighted average useful life). Amortization expense relating to customer contracts is classified as a component of total direct costs on the Company’s consolidated statement of income while amortization expense relating to customer relationships and non-competition agreements are classified as a component of operating expenses. Additionally, the Company recorded \$20.9 million of goodwill, which the Company intends to deduct for income tax purposes.

Acquisition of Speltz & Weis LLC

On May 9, 2005, Huron Consulting Group Inc. acquired Speltz & Weis LLC (“S&W”), a specialized consulting firm that consisted of 26 consultants. The aggregate purchase price of the acquisition was \$17.2 million, which consisted of \$14.0 million cash paid at closing, notes payable totaling \$3.0 million payable in three equal annual installments of \$1.0 million (together with accrued interest at 4% per annum) that began on May 8, 2006, and \$0.2 million of transaction costs. Additional purchase consideration may be payable based on the performance of S&W over a three-year period. Such amounts will be recorded as an adjustment to goodwill if payable. Also, additional payments may be made based on the amount of revenues the Company receives from certain referrals made by S&W employees. Such amounts will be recorded as an expense if payable. The acquisition was accounted for under the purchase method of accounting. It was consummated on May 9, 2005 and the results of operations of S&W have been included within the Financial Consulting segment since that date.

The identifiable intangible assets that were acquired consisted of customer contracts of \$1.9 million (8.4 months weighted average useful life) and customer relationships of \$0.7 million (15.1 months weighted average useful life). Additionally, the Company recorded \$14.6 million of goodwill, which the Company intends to deduct for income tax purposes.

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

Purchase Price Allocations

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisitions.

| | Galt | S&W |
|----------------------|-----------------|----------------|
| | April 3, | May 9, |
| | 2006 | 2005 |
| Assets Acquired: | | |
| Current assets | \$ — | \$ 2,291 |
| Equipment | 11 | 16 |
| Intangible assets | 4,300 | 2,600 |
| Goodwill | 20,864 | 14,637 |
| | 25,175 | 19,544 |
| Liabilities Assumed: | | |
| Current liabilities | — | 2,307 |
| Net Assets Acquired | \$ 25,175 | \$ 17,237 |

Pro Forma Financial Data

The following unaudited pro forma financial data gives effect to the acquisitions of Galt and S&W as if they had been completed at the beginning of the period presented. The unaudited pro forma financial data are not necessarily indicative of the operating results that would have been achieved if the acquisition had occurred on the dates indicated, nor are they necessarily indicative of future results.

| | Historical Huron and Historical Galt | | | |
|--|---|------------------|-------------------------|------------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| | Actual | Pro forma | Pro forma | Pro forma |
| Revenues, net of reimbursable expenses | \$ 67,769 | \$ 54,133 | \$ 134,025 | \$ 103,997 |
| Operating income | \$ 11,307 | \$ 8,907 | \$ 22,700 | \$ 16,652 |
| Income before provision for income taxes | \$ 11,114 | \$ 8,719 | \$ 22,526 | \$ 16,503 |
| Net income | \$ 6,280 | \$ 4,953 | \$ 12,777 | \$ 9,420 |
| Earnings per share: | | | | |
| Basic | \$ 0.39 | \$ 0.32 | \$ 0.79 | \$ 0.60 |
| Diluted | \$ 0.36 | \$ 0.30 | \$ 0.75 | \$ 0.56 |

| | Historical Huron and Historical S&W | | | |
|--|--|------------------|-------------------------|------------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| | Actual | Pro forma | Actual | Pro forma |
| Revenues, net of reimbursable expenses | \$ 67,769 | \$ 52,853 | \$ 129,956 | \$ 105,559 |
| Operating income | \$ 11,307 | \$ 8,212 | \$ 20,980 | \$ 17,248 |
| Income before provision for income taxes | \$ 11,114 | \$ 8,263 | \$ 21,019 | \$ 17,441 |
| Net income | \$ 6,280 | \$ 4,664 | \$ 11,876 | \$ 9,855 |

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Earnings per share:

| | | | | | | | | |
|---------|----|------|----|------|----|------|----|------|
| Basic | \$ | 0.39 | \$ | 0.30 | \$ | 0.73 | \$ | 0.63 |
| Diluted | \$ | 0.36 | \$ | 0.28 | \$ | 0.69 | \$ | 0.59 |

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

5. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2006 were as follows:

| | Financial Consulting | Operational Consulting | Total |
|-------------------------------|---------------------------------|-----------------------------------|--------------|
| Balance as of January 1, 2006 | \$ 11,739 | \$ 2,898 | \$ 14,637 |
| Goodwill acquired | | 20,864 | 20,864 |
| Balance as of June 30, 2006 | \$ 11,739 | \$ 23,762 | \$ 35,501 |

Identifiable intangible assets with finite lives are amortized over their estimated useful lives. Intangible assets amortization expense was \$1.8 million and \$2.1 million for the three and six months ended June 30, 2006, respectively. Intangible assets amortization expense was \$0.5 million for both the three and six months ended June 30, 2005. Estimated intangible assets amortization expense is \$3.8 million for 2006, \$0.3 million for each of 2007, 2008, 2009 and 2010 and \$0.1 million for 2011. These amounts are based on intangible assets recorded as of June 30, 2006 and actual amortization expense could differ from these estimated amounts as a result of future acquisitions and other factors. Intangible assets are as follows:

| | June 30, 2006 | | December 31, 2005 | |
|----------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer contracts | \$ 3,600 | \$ 3,516 | \$ 1,900 | \$ 1,848 |
| Customer relationships | 2,100 | 638 | 700 | 359 |
| Non-competition agreements | 1,200 | 65 | — | — |
| Technology | 475 | 71 | 475 | 24 |
| Total | \$ 7,375 | \$ 4,290 | \$ 3,075 | \$ 2,231 |

6. Property and Equipment

Property and equipment at June 30, 2006 and December 31, 2005 are detailed below:

| | June 30, 2006 | December 31, 2005 |
|---|--------------------------|------------------------------|
| Computers, related equipment and software | \$ 11,471 | \$ 9,747 |
| Furniture and fixtures | 5,979 | 3,721 |
| Leasehold improvements | 16,235 | 6,122 |
| Assets under capital lease | 409 | 409 |
| Assets under construction | — | 1,229 |
| Property and equipment | 34,094 | 21,228 |
| Accumulated depreciation and amortization | (10,590) | (8,066) |
| Property and equipment, net | \$ 23,504 | \$ 13,162 |

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

7. 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 | | Six Months Ended | |
|--|---------------------------|-------------|-------------------------|-------------|
| | June 30, | | June 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Net income | \$ 6,280 | \$ 4,657 | \$ 11,876 | \$ 9,484 |
| Weighted average common shares outstanding - basic | 16,309 | 15,646 | 16,194 | 15,597 |
| Weighted average common stock equivalents | 935 | 1,127 | 926 | 1,128 |
| Weighted average common shares outstanding - diluted | 17,244 | 16,773 | 17,120 | 16,725 |
| Basic earnings per share | \$ 0.39 | \$ 0.30 | \$ 0.73 | \$ 0.61 |
| Diluted earnings per share | \$ 0.36 | \$ 0.28 | \$ 0.69 | \$ 0.57 |

There were no anti-dilutive securities for the three and six months ended June 30, 2006 and 2005.

8. Line of Credit

The Company has a bank credit agreement that originally expired on February 10, 2006. On January 17, 2006, the Company extended the credit agreement for ninety days to May 10, 2006. On March 28, 2006, the Company further extended the credit agreement for another sixty days to July 10, 2006, and also amended certain terms of the original agreement.

On June 7, 2006, the Company entered into a new credit agreement with various financial institutions. Under the terms of this new unsecured revolving credit facility, the Company may borrow up to \$75.0 million. Additionally, the Company may elect to increase the revolver by \$25.0 million. Fees and interest on borrowings vary based on the Company's total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio as set forth in the credit agreement and will be based on a spread over LIBOR or a spread over the base rate, which is the greater of the Federal Funds Rate plus 0.5% or the Prime Rate, as selected by the Company. All outstanding principal is due upon expiration of the credit agreement on May 31, 2011. The credit agreement includes financial covenants that require the Company to maintain certain interest coverage ratio, total debt to EBITDA ratio and net worth levels. In addition, certain acquisitions and similar transactions will need to be approved by the lenders. The amount outstanding under this credit facility at June 30, 2006 was \$6.5 million and bears interest at 5.7%. The Company had no borrowings outstanding under the bank credit agreement at December 31, 2005. At both June 30, 2006 and December 31, 2005, the Company was in compliance with its debt covenants.

9. Commitments and Contingencies

Litigation

From time to time, the Company is involved in various legal matters arising out of the ordinary course of business. Although the outcome of these matters cannot presently be determined, in the opinion of management, disposition of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

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

Guarantees

Guarantees in the form of letters of credit totaling \$6.2 million and \$6.5 million were outstanding at June 30, 2006 and December 31, 2005, respectively, to support certain office lease obligations.

To the extent permitted by law, the Company's by-laws and articles of incorporation require that the Company indemnify its 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 the Company if such person acted in good faith. Although there is no limit on the amount of indemnification, the Company may have recourse against its insurance carrier for certain payments made.

10. Segment Information

Segments are defined by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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.

The Company provides services through two segments: Financial Consulting and Operational Consulting. The Financial Consulting segment provides services that help clients effectively address complex challenges that arise from litigation, disputes, investigations, regulation, financial distress and other sources of significant conflict or change. The Operational Consulting segment provides services that help clients improve the overall efficiency and effectiveness of their operations by enhancing revenue, reducing costs, managing regulatory compliance and maximizing procurement efficiency.

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, all 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 following table presents information about reported segments along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements:

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|-----------|------------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Financial Consulting: | | | | |
| Revenues | \$ 31,432 | \$ 29,890 | \$ 66,629 | \$ 54,443 |
| Operating income | \$ 12,648 | \$ 12,457 | \$ 26,094 | \$ 22,444 |
| Segment operating income as a percent of segment revenues | 40.2% | 41.7% | 39.2% | 41.2% |
| Operational Consulting: | | | | |
| Revenues | \$ 36,337 | \$ 20,627 | \$ 63,327 | \$ 42,834 |
| Operating income | \$ 12,801 | \$ 7,237 | \$ 22,730 | \$ 15,988 |
| Segment operating income as a percent of segment revenues | 35.2% | 35.1% | 35.9% | 37.3% |
| Total Company: | | | | |
| Revenues | \$ 67,769 | \$ 50,517 | \$ 129,956 | \$ 97,277 |
| Reimbursable expenses | 6,691 | 4,691 | 12,130 | 9,061 |
| Total revenues and reimbursable expenses | \$ 74,460 | \$ 55,208 | \$ 142,086 | \$ 106,338 |
| Statement of operations reconciliation: | | | | |
| Segment operating income | \$ 25,449 | \$ 19,694 | \$ 48,824 | \$ 38,432 |
| Charges not allocated at the segment level: | | | | |
| Other selling, general and administrative expenses | 12,573 | 10,435 | 24,767 | 20,097 |
| Depreciation and amortization | 1,569 | 1,109 | 3,077 | 1,956 |
| Other expense (income) | 193 | (64) | (39) | (230) |
| Income before provision for income taxes | \$ 11,114 | \$ 8,214 | \$ 21,019 | \$ 16,609 |

No single client generated greater than 10.0% of the Company's consolidated revenues during the three and six months ended June 30, 2006. At June 30, 2006, no single client's total receivables and unbilled services balance represented greater than 10.0% of the Company's total receivables and unbilled services balance.

During the three and six months ended June 30, 2005, revenues from one client represented greater than 10.0% of the Company's consolidated revenues as presented in the table below. This client's total receivables and unbilled services balance at June 30, 2005 represented 12.2% of the Company's total receivables and unbilled services balance.

| | Three Months Ended June 30, 2005 | Six Months Ended June 30, 2005 |
|-------------------------------------|--|---|
| Financial Consulting | \$ 4,821 | \$ 10,343 |
| Operational Consulting | 938 | 1,879 |
| Total | \$ 5,759 | \$ 12,222 |
| Percentage of Consolidated Revenues | 11.4% | 12.6% |

11. Subsequent Events

On July 31, 2006, the Company acquired Aaxis Technologies and Document Review Consulting Services LLC to enhance the Company's service offerings to the office of the general counsel and law firms. Under the terms of the purchase agreements, the Company has acquired the two companies, including approximately \$6 million of accounts receivable, for an aggregate purchase price of approximately \$24 million.

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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" and "our" refer to Huron Consulting Group Inc. and its indirect operating subsidiaries, Huron Consulting Services LLC and Speltz & Weis LLC.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are identified by words such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," or "continues." These forward-looking statements reflect our current expectation about our future results, levels of activity, performance or achievements, including without limitation, that our business continues to grow at the current expectations; that we are able to expand our service offerings through our existing consultants and new hires; that we successfully integrate the businesses we acquire; and that existing market conditions do not change from current expectations. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Please see "Risk Factors" in our 2005 annual report on Form 10-K for a complete description of the material risks we face.

OVERVIEW

Our History

Huron was formed in March 2002 and commenced operations in May 2002. We were founded by a core group of experienced financial and operational consultants that consisted primarily of former Arthur Andersen LLP partners and professionals, with equity sponsorship from a group of investors led by Lake Capital Management LLC. For purposes of holding their investment in us, these investors formed HCG Holdings LLC, a Delaware limited liability company. On October 18, 2004, we completed our initial public offering ("IPO") and became a publicly traded company. During the first quarter of 2006, HCG Holdings LLC sold 7,245,000 shares of our common stock in a secondary offering.

On May 9, 2005, we acquired Speltz & Weis LLC ("S&W"), a specialized consulting firm that consisted of 26 consultants. With the acquisition of S&W, the Company provides interim management, organizational renewal and turnaround services, and other crisis management services to distressed hospitals and other healthcare facilities. The results of operations of S&W have been included within the Financial Consulting segment since the date of acquisition.

On April 3, 2006, the Company acquired substantially all of the assets of MSGalt & Company, LLC ("Galt"), a specialized advisory firm consisting of 25 consultants that designs and implements corporate-wide programs to improve shareholder returns. The results of operations of Galt have been included within the Operational Consulting segment since the date of acquisition.

Our Business

Huron is an independent provider of financial and operational consulting services, with clients that include Fortune 500 companies, medium-sized businesses, leading academic institutions, healthcare organizations and the law firms that represent these various organizations.

We provide our services through two segments: Financial Consulting and Operational Consulting. Our Financial Consulting segment provides services that help clients effectively address complex challenges that arise from litigation, disputes, investigations, regulation, financial distress and other sources of significant conflict or change. Our Operational Consulting segment provides services that help clients improve the overall efficiency and effectiveness of their operations, reduce costs, manage regulatory compliance and maximize procurement efficiency.

We derive all of our revenues through three principal types of billing arrangements consisting of time and expense, fixed fee and performance-based. We manage our business on the basis of revenues before reimbursable expenses. We believe this is the most accurate reflection of our consulting services because it eliminates the effect of reimbursable expenses that we bill to our clients at cost.

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Most of our revenues are generated from time and expense engagements. In time and expense engagements, fees are based on the hours incurred at agreed upon billing rates. Time and expense engagements represented approximately 78.6% and 82.8% of our revenues in the three and six months ended June 30, 2006, respectively.

In fixed fee engagements, we agree to a pre-established fee in exchange for a pre-determined set of consulting services. We set the fees based on our estimates of the costs and timing for completing the fixed fee 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. For the three and six months ended June 30, 2006, fixed fee engagements represented approximately 17.1% and 13.9% of our revenues, respectively.

Performance-based fee engagements generally tie fees 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 cost effectiveness in the procurement area. Second, we have performance-based engagements in which we earn a success fee when and if certain pre-defined outcomes occur. Often this type of success fee supplements time and expense or fixed fee engagements. While performance-based fee revenues represented only approximately 4.3% and 3.3% of our revenues for the three and six months ended June 30, 2006, such revenues in the future may cause significant variations in quarterly revenues and operating results due to the timing of achieving the performance-based criteria.

Business Strategy, Opportunities and Challenges

Our primary strategy is to meet the needs of our financial consulting and operational consulting 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 continue to hire highly qualified consultants. Since we commenced operations, we more than tripled the number of our consultants from 213 on May 31, 2002 to 670 as of June 30, 2006. To expand our business, we will remain focused on growing our existing relationships and developing new relationships, continue to promote and provide an integrated approach to service delivery, broaden the scope of our existing services, and enter into select acquisitions of complementary businesses. Additionally, we intend to enhance our visibility in the marketplace by continuing to build our brand.

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 accounting principles generally accepted in the United States of America, or GAAP. 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 five accounting policies that could be considered critical. These critical accounting policies include revenue recognition, the allowances for doubtful accounts and unbilled services, carrying value of goodwill and other intangible assets, valuation of net deferred tax assets, and share-based compensation.

Revenue Recognition

We recognize revenues in accordance with Staff Accounting Bulletin, or SAB, No. 101, "Revenue Recognition in Financial Statements," as amended by SAB No. 104, "Revenue Recognition." Revenue is recognized when persuasive evidence of an arrangement exists, the related services are provided, the price is fixed and determinable and collectibility is reasonably assured. Our services are primarily rendered under engagements that require the client to pay on a time and expense basis. Fees are based on the hours incurred at agreed-upon rates and recognized as services are provided. Revenues related to fixed fee engagements are recognized based on estimates of services provided

versus the total services to be provided under the engagement. Losses, if any, on fixed fee engagements are recognized in the period in which the loss first becomes probable and reasonably estimable. To date, such losses have not been significant. Revenues related to performance-based engagements are recognized when all performance-based criteria are met. We also have contracts with clients to deliver multiple services that are covered under both individual and separate engagement letters. These arrangements allow for our services to be valued and

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accounted for on a separate basis. Reimbursable expenses related to time and expense and fixed fee engagements are recognized as revenue in the period in which the expense is incurred. Reimbursable expenses subject to performance-based criteria are recognized as revenue when all performance criteria are met. Direct costs incurred on all types of engagements, including performance-based engagements, are recognized in the period in which incurred.

Differences between the timing of billings and the recognition of revenue are recorded as either unbilled services or deferred revenue. Revenues recognized for services performed but not yet billed to clients are recorded as unbilled services. Amounts billed to clients but not yet recognized as revenues are recorded as deferred revenue. Client prepayments and retainers that are unearned are also classified as deferred revenue and recognized over future periods as earned in accordance with the applicable engagement agreement.

Allowances for Doubtful Accounts and Unbilled Services

We maintain allowances for doubtful accounts and for services performed but not yet billed for estimated losses based on several factors, including the historical percentages of fee adjustments and write-offs by service group, an assessment of a client's ability to make required payments and the estimated cash realization from amounts due from clients. The allowances are assessed by management on a regular basis. If the financial condition of a client deteriorates in the future, impacting the client's ability to make payments, an increase to our allowance might be required or our allowance may not be sufficient to cover actual write-offs.

The provision for doubtful accounts and unbilled services is recorded as a reduction in revenue to the extent the provision relates to fee adjustments and other discretionary pricing adjustments. To the extent the provision relates to a client's inability to make required payments, the provision is recorded in operating expenses.

Carrying Value of Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Our goodwill balance as of June 30, 2006 was \$35.5 million, which resulted from our acquisitions of S&W and Galt. Pursuant to the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," we test goodwill for impairment on April 30 of each year or whenever indications of impairment arise, such as loss of key personnel, unanticipated competition, or other unforeseen developments. Impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for this excess. An impairment test involves considerable management judgment and estimates regarding future operating results and cash flows. We tested goodwill as of April 30, 2006 and determined that no impairment of goodwill existed as of that date.

Intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill. Our intangible assets balances, net of accumulated amortization, totaled \$3.1 million at June 30, 2006 and consist of customer relationships, customer contracts and non-competition agreements relating to our acquisitions, as well as purchased technology. We use valuation techniques in estimating the initial fair value of acquired intangible assets. These valuations are primarily based on the present value of the estimated net cash flows expected to be derived from the client contracts and relationships, discounted for assumptions about future customer attrition. We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Therefore, higher or earlier-than-expected customer attrition may result in higher future amortization charges or an impairment charge for customer-related intangible assets.

Valuation of Net Deferred Tax Assets

We have recorded net deferred tax assets as we expect to realize future tax benefits related to the utilization of these assets. Although we experienced net losses early in our history, no valuation allowance has been recorded relating to these deferred tax assets because we believe that it is more likely than not that future taxable income will be sufficient to allow us to utilize these assets. Should we determine in the future that we will not be able to fully utilize all or part of these deferred tax assets, we would need to establish a valuation allowance, which would be recorded as a charge to income in the period the determination was made. While utilization of these deferred tax assets will provide future

cash flow benefits, they will not have an effect on future income tax provisions.

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Share-based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," which requires that companies recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value. Given the lack of a public market for our common stock prior to our IPO, we established an estimated fair value of the common stock as well as the exercise price for the options to purchase this stock. We estimated the fair value of our common stock by evaluating our results of business activities and projections of our future results of operations.

RESULTS OF OPERATIONS

The following table sets forth selected segment and consolidated operating results and other operating data for the periods indicated. 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.

| Segment and Consolidated Operating Results (in thousands): | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|------------------|--------------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues and reimbursable expenses: | | | | |
| Financial Consulting | \$ 31,432 | \$ 29,890 | \$ 66,629 | \$ 54,443 |
| Operational Consulting | 36,337 | 20,627 | 63,327 | 42,834 |
| Total revenues | 67,769 | 50,517 | 129,956 | 97,277 |
| Total reimbursable expenses | 6,691 | 4,691 | 12,130 | 9,061 |
| Total revenues and reimbursable expenses | \$ 74,460 | \$ 55,208 | \$ 142,086 | \$ 106,338 |
| Operating income: | | | | |
| Financial Consulting | \$ 12,648 | \$ 12,457 | \$ 26,094 | \$ 22,444 |
| Operational Consulting | 12,801 | 7,237 | 22,730 | 15,988 |
| Total segment operating income | 25,449 | 19,694 | 48,824 | 38,432 |
| Unallocated corporate costs | 12,573 | 10,435 | 24,767 | 20,097 |
| Depreciation and amortization expense | 1,569 | 1,109 | 3,077 | 1,956 |
| Total operating expenses | 14,142 | 11,544 | 27,844 | 22,053 |
| Operating income | \$ 11,307 | \$ 8,150 | \$ 20,980 | \$ 16,379 |
| Other Operating Data: | | | | |
| Number of consultants (at period end) (1): | | | | |
| Financial Consulting | 300 | 284 | | |
| Operational Consulting | 370 | 273 | | |
| Total | 670 | 557 | | |
| Average number of consultants (for the period): | | | | |
| Financial Consulting | 300 | 270 | 304 | 270 |
| Operational Consulting | 355 | 256 | 344 | 243 |
| Total | 655 | 526 | 648 | 513 |
| Utilization rate (2): | | | | |
| Financial Consulting | 74.1% | 80.4% | 79.0% | 77.5% |
| Operational Consulting | 78.7% | 71.6% | 75.5% | 75.0% |

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| | | | | | | | | |
|---|----|-------|----|-------|----|-------|----|-------|
| Total | | 76.7% | | 76.1% | | 77.1% | | 76.3% |
| Average billing rate per hour (3): | | | | | | | | |
| Financial Consulting | \$ | 294 | \$ | 282 | \$ | 285 | \$ | 278 |
| Operational Consulting | \$ | 247 | \$ | 223 | \$ | 240 | \$ | 226 |
| Total | \$ | 267 | \$ | 254 | \$ | 261 | \$ | 252 |

-
- (1) Consultants consist of our billable professionals, excluding interns and independent contractors.
- (2) We calculate the utilization rate for our consultants by dividing the number of hours all our consultants worked on client assignments during a period by the total available working hours for all of our consultants during the same period, assuming a forty-hour work week, less paid holidays and vacation days.
- (3) Average billing rate per hour is calculated by dividing revenues for a period by the number of hours worked on client assignments during the same period.

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Revenues

Revenues increased \$17.3 million, or 34.2%, to \$67.8 million for the three months ended June 30, 2006 from \$50.5 million for the three months ended June 30, 2005. Revenues for the three months ended June 30, 2006 included revenues generated by Galt since April 3, 2006. Revenues from time and expense engagements increased \$10.1 million, or 23.4%, to \$53.2 million for the second quarter of 2006 from \$43.1 million for the second quarter of 2005. Revenues from fixed fee engagements increased \$5.2 million, or 81.3%, to \$11.6 million for the three months ended June 30, 2006 from \$6.4 million for the three months ended June 30, 2005. Revenues from performance-based engagements increased \$2.0 million, or 200.0%, to \$3.0 million for the three months ended June 30, 2006 from \$1.0 million for the three months ended June 30, 2005.

Of the overall \$17.3 million increase in revenues, \$13.8 million was attributable to an increase in the number of consultants, \$3.1 million was attributable to an increase in the average billing rate per hour, and \$0.4 million was attributable to an increase in the utilization rate of our consultants. The increases were reflective of growing demand for our services from new and existing clients. The average number of consultants increased to 655 for the three months ended June 30, 2006 from 526 for the three months ended June 30, 2005, as we added a significant number of consultants in our Operational Consulting segment. The increase in consultants was also reflective of our acquisitions. Our average billing rate per hour increased 5.1% to \$267 for the three months ended June 30, 2006 from \$254 for the three months ended June 30, 2005. Average billing rate per hour for any given period is calculated by dividing revenues for the period by the number of hours worked on client assignments during the same period. Our utilization rate increased slightly to 76.7% for the three months ended June 30, 2006 from 76.1% for the three months ended June 30, 2005. The utilization rate for any given period is calculated by dividing the number of hours all our consultants worked on client assignments during the period by the total available working hours for all of our consultants during the same period, assuming a 40-hour work week, less paid holidays and vacation days.

Total Direct Costs

Our direct costs increased \$8.6 million, or 30.2%, to \$37.4 million in the three months ended June 30, 2006 from \$28.8 million in the three months ended June 30, 2005. Approximately \$8.1 million of the increase was attributable to the increase in the average number of consultants described above, the promotion of nine of our employees to the managing director level effective January 1, 2006, and their related compensation and benefit costs. Additionally, share-based compensation expense associated with our billable professionals increased \$0.4 million, or 33.3%, to \$1.6 million in the second quarter of 2006 from \$1.2 million in the second quarter of 2005. We expect to continue to hire additional managing directors during 2006, as well as hire additional managers, associates and analysts to expand support for our existing practices and better leverage our managing directors and directors. As such, we expect direct costs will continue to increase in the near term.

Total direct costs for the three months ended June 30, 2006 and 2005 included \$1.6 million and \$0.4 million, respectively, of intangible assets amortization expense. The increase in 2006 was attributable to the acquisition of Galt in the second quarter of 2006, in which customer contracts with a value of \$1.7 million were acquired and are being amortized over 3.2 months.

Operating Expenses

Selling, general and administrative expenses increased \$3.6 million, or 29.8%, to \$15.7 million in the three months ended June 30, 2006 from \$12.1 million in the three months ended June 30, 2005. This increase was due to \$1.0 million of higher facilities costs attributable to two new leases that we entered into during the second half of 2005, \$0.9 million increase in training and recruiting costs, and \$0.8 million increase in marketing expenses. The remaining increase in selling, general and administrative costs in the three months ended June 30, 2006 compared to

the same period last year was due to increases in salaries and share-based compensation associated with our non-billable professionals.

Depreciation expense increased \$0.4 million, or 40.0%, to \$1.4 million in the three months ended June 30, 2006 from \$1.0 million in the three months ended June 30, 2005 as computers, network equipment, furniture and fixtures, and leasehold improvements were added to support our increase in employees. Non-direct intangible assets amortization expense for the three months ended June 30, 2006 and 2005 was \$0.2 million and \$0.1 million, respectively.

Operating Income

Operating income increased \$3.1 million, or 38.7%, to \$11.3 million for the three months ended June 30, 2006 from \$8.2 million for the three months ended June 30, 2005. The increase in operating income was primarily due to the increase in revenues, partially offset by the increases in direct costs, selling, general and administrative expense and intangible assets amortization as discussed above. Operating margin, which is defined as operating income expressed as a percentage of revenues, increased slightly to 16.7% in the three months ended June 30, 2006 from 16.1% in the three months ended June 30, 2005.

Net Income

Net income increased \$1.6 million, or 34.9%, to \$6.3 million for the three months ended June 30, 2006 from \$4.7 million for the three months ended June 30, 2005. Diluted earnings per share increased to \$0.36 for the three months ended June 30, 2006 from \$0.28 for the comparable period last year.

Segment Results

Financial Consulting

Revenues

Financial Consulting segment revenues increased \$1.5 million, or 5.2%, to \$31.4 million for the three months ended June 30, 2006 from \$29.9 million for the three months ended June 30, 2005. Revenues from time and expense engagements increased \$1.9 million, or 6.7%, to \$30.4 million for the three months ended June 30, 2006 from \$28.5 million for the three months ended June 30, 2005. Revenues from fixed fee engagements decreased \$0.8 million, or 57.1%, to \$0.6 million for the three months ended June 30, 2006 from \$1.4 million for the three months ended June 30, 2005. Revenues from performance-based engagements totaled \$0.4 million for the second quarter of 2006. There were no revenues from performance-based engagements for the second quarter of 2005.

Of the overall \$1.5 million increase in revenues, \$2.5 million was attributable to an increase in the number of consultants, \$1.3 million was attributable to an increase in the average billing rate per hour, partially offset by a decrease of \$2.3 million in revenues attributable to a decrease in the utilization rate of our consultants. The average number of consultants increased to 300 for the three months ended June 30, 2006 from 270 for the three months ended June 30, 2005. The average billing rate per hour increased to \$294 for the three months ended June 30, 2006 from \$282 for the three months ended June 30, 2005. The utilization rate for the Financial Consulting segment decreased to 74.1% for the three months ended June 30, 2006 from 80.4% for the comparable quarter last year.

Operating Income

Financial Consulting segment operating income increased slightly to \$12.6 million in the three months ended June 30, 2006 from \$12.5 million in the three months ended June 30, 2005. Segment operating margin, defined as segment operating income expressed as a percentage of segment revenues, decreased to 40.2% for the second quarter of 2006 from 41.7% in the same period last year, primarily due to the increase in consultants and their related compensation costs, as well as lower utilization as described above.

Operational Consulting

Revenues

Operational Consulting segment revenues increased \$15.7 million, or 76.2%, to \$36.3 million for the three months ended June 30, 2006 from \$20.6 million for the three months ended June 30, 2005. Revenues for the three months ended June 30, 2006 included revenues generated by Galt since April 3, 2006. Revenues from time and expense engagements increased \$8.1 million, or 55.5%, to \$22.7 million for the three months ended June 30, 2006 from \$14.6 million for the comparable period last year. Revenues from fixed fee engagements increased \$6.0 million, or 120.0%, to \$11.0 million for the three months ended June 30, 2006 from \$5.0 million for the three months ended June 30, 2005. Revenues from performance-based engagements increased \$1.6 million, or 160.0%, to \$2.6 million for the three months ended June 30, 2006 from \$1.0 million for the three months ended June 30, 2005.

Of the overall \$15.7 million increase in revenues, \$11.2 million was attributable to an increase in the number of consultants and growth in client engagements, \$2.7 million was attributable to an increase in the utilization rate of our consultants, and \$1.8 million was attributable to an increase in the average billing rate per hour. The average number of consultants increased to 355 for the three months ended June 30, 2006 from 256 for the three months ended June 30, 2005, as we added a significant number of consultants over the past year. The increase in consultants also reflects the acquisition of Galt. The utilization rate for the Operational Consulting segment increased to 78.7% for the three months ended June 30, 2006 from 71.6% for the three months ended June 30, 2005. The average billing rate per hour increased 10.8% to \$247 for the second quarter of 2006 from \$223 for the comparable period last year.

Operating Income

Operational Consulting segment operating income increased \$5.6 million, or 76.9%, to \$12.8 million for the three months ended June 30, 2006 from \$7.2 million for the three months ended June 30, 2005. Segment operating margin remained steady at 35.2% for the second quarter of 2006 compared to 35.1% in the same period last year.

Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Revenues

Revenues increased \$32.7 million, or 33.6%, to \$130.0 million for the six months ended June 30, 2006 from \$97.3 million for the six months ended June 30, 2005. Revenues for the six months ended June 30, 2006 included revenues generated by Galt since April 3, 2006. Revenues from time and expense engagements increased \$26.2 million, or 32.2%, to \$107.5 million for the first half of 2006 from \$81.3 million for the first half of 2005. Revenues from fixed fee engagements increased \$4.1 million, or 29.3%, to \$18.1 million for the six months ended June 30, 2006 from \$14.0 million for the six months ended June 30, 2005. Revenues from performance-based engagements increased \$2.4 million, or 120.0%, to \$4.4 million for the six months ended June 30, 2006 from \$2.0 million for the six months ended June 30, 2005.

Of the overall \$32.7 million increase in revenues, \$27.54 million was attributable to an increase in the number of consultants, \$4.2 million was attributable to an increase in the average billing rate per hour, and \$1.0 million was attributable to an increase in the utilization rate of our consultants. These increases were reflective of growing demand for our services from new and existing clients. The average number of consultants increased to 648 for the six months ended June 30, 2006 from 513 for the six months ended June 30, 2005, as we added a significant number of consultants in our Operational Consulting segment. The increase in consultants was also reflective of our acquisitions. Our average billing rate per hour increased to \$261 for the six months ended June 30, 2006 from \$252 for the six months ended June 30, 2005. Additionally, our utilization rate increased to 77.1% for the six months ended June 30, 2006 from 76.3% for the six months ended June 30, 2005.

Total Direct Costs

Our direct costs increased \$18.7 million, or 34.2%, to \$73.4 million in the six months ended June 30, 2006 from \$54.7 million in the six months ended June 30, 2005. Approximately \$16.8 million of the increase was attributable to

the increase in the average number of consultants described above, the promotion of nine of our employees to the managing director level effective January 1, 2006, and their related compensation and benefit costs. Additionally, share-based compensation expense associated with our billable professionals increased \$1.1 million, or 50.0%, to \$3.3 million in the first half of 2006 from \$2.2 million in the first half of 2005.

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Total direct costs for the six months ended June 30, 2006 and 2005 included \$1.7 million and \$0.4 million, respectively, of intangible assets amortization expense. The increase in 2006 was attributable to the acquisition of Galt in the second quarter of 2006, in which customer contracts with a value of \$1.7 million were acquired and are being amortized over 3.2 months.

Operating Expenses

Selling, general and administrative expenses increased \$6.8 million, or 28.2%, to \$30.6 million in the six months ended June 30, 2006 from \$23.8 million in the six months ended June 30, 2005. Approximately \$2.0 million of this increase was due to higher facilities costs attributable to two new leases that we entered into during the second half of 2005. In connection with a secondary offering that was completed in February 2006, we incurred costs totaling \$0.6 million after tax, or \$0.03 per diluted share, during the first quarter of 2006. These costs were expensed in the period incurred because we did not issue securities in the offering. The remaining increase in selling, general and administrative costs in the six months ended June 30, 2006 compared to the same period last year was due to increases in marketing expenses, training and recruiting costs, as well as salaries and share-based compensation associated with our non-billable professionals.

Depreciation expense increased \$0.8 million, or 42.1%, to \$2.7 million in the six months ended June 30, 2006 from \$1.9 million in the six months ended June 30, 2005 as computers, network equipment, furniture and fixtures, and leasehold improvements were added to support our increase in employees. Non-direct intangible assets amortization expense for the six months ended June 30, 2006 and 2005 was \$0.3 million and \$0.1 million, respectively.

Operating Income

Operating income increased \$4.6 million, or 28.1%, to \$21.0 million for the six months ended June 30, 2006 from \$16.4 million for the six months ended June 30, 2005. The increase in operating income was primarily due to the increase in revenues, partially offset by the increases in direct costs, selling, general and administrative expense and intangible assets amortization as discussed above. Operating margin decreased slightly to 16.1% in the six months ended June 30, 2006 from 16.8% in the comparable period last year.

Net Income

Net income increased \$2.4 million, or 25.2%, to \$11.9 million for the six months ended June 30, 2006 from \$9.5 million for the six months ended June 30, 2005. Diluted earnings per share increased to \$0.69 for the six months ended June 30, 2006 from \$0.57 for the comparable period last year.

Segment Results

Financial Consulting

Revenues

Financial Consulting segment revenues increased \$12.2 million, or 22.4%, to \$66.6 million for the six months ended June 30, 2006 from \$54.4 million for the six months ended June 30, 2005. Revenues from time and expense engagements increased \$13.0 million, or 25.1%, to \$64.7 million for the six months ended June 30, 2006 from \$51.7 million for the six months ended June 30, 2005. Revenues from fixed fee engagements decreased \$1.2 million, or 44.4%, to \$1.5 million for the six months ended June 30, 2006 from \$2.7 million for the six months ended June 30, 2005. Revenues from performance-based engagements for the first half of 2006 totaled \$0.4 million and were immaterial for the first half of 2005.

Of the overall \$12.2 million increase in revenues, \$9.7 million was attributable to an increase in the number of consultants, \$1.5 million was attributable to an increase in the average billing rate per hour, and \$1.0 million was attributable to an increase in the utilization rate of our consultants. The average number of consultants increased to 304 for the six months ended June 30, 2006 from 270 for the six months ended June 30, 2005. The utilization rate for the Financial Consulting segment increased to 79.0% for the six months ended June 30, 2006 from 77.5% for the

comparable period last year. The average billing rate per hour increased to \$285 for the six months ended June 30, 2006 from \$278 for the six months ended June 30, 2005.

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Operating Income

Financial Consulting segment operating income increased \$3.7 million, or 16.3%, to \$26.1 million in the six months ended June 30, 2006 from \$22.4 million in the six months ended June 30, 2005. Segment operating margin decreased to 39.2% for the first half of 2006 from 41.2% in the same period last year, primarily due to the increase in consultants, particularly at the managing director level, and their related compensation costs.

Operational Consulting

Revenues

Operational Consulting segment revenues increased \$20.5 million, or 47.8%, to \$63.3 million for the six months ended June 30, 2006 from \$42.8 million for the six months ended June 30, 2005. Revenues for the six months ended June 30, 2006 included revenues generated by Galt since April 3, 2006. Revenues from time and expense engagements increased \$13.2 million, or 44.7%, to \$42.7 million for the six months ended June 30, 2006 from \$29.5 million for the comparable period last year. Revenues from fixed fee engagements increased \$5.3 million, or 46.9%, to \$16.6 million for the six months ended June 30, 2006 from \$11.3 million for the six months ended June 30, 2005. Revenues from performance-based engagements increased \$2.0 million, or 100.0%, to \$4.0 million for the six months ended June 30, 2006 from \$2.0 million for the six months ended June 30, 2005.

Of the overall \$20.5 million increase in revenues, \$17.8 million was attributable to an increase in the number of consultants and growth in client engagements and \$2.7 million was attributable to an increase in the average billing rate per hour. The average number of consultants increased to 344 for the six months ended June 30, 2006 from 243 for the six months ended June 30, 2005, as we added a significant number of consultants over the past year. The increase in consultants also reflects the acquisition of Galt. The average billing rate per hour increased 6.2% to \$240 for the first half of 2006 from \$226 for the comparable period last year. The utilization rate for the Operational Consulting segment increased slightly to 75.5% for the six months ended June 30, 2006 from 75.0% for the six months ended June 30, 2005.

Operating Income

Operational Consulting segment operating income increased \$6.7 million, or 42.2%, to \$22.7 million for the six months ended June 30, 2006 from \$16.0 million for the six months ended June 30, 2005. Segment operating margin decreased to 35.9% for the second quarter of 2006 from 37.3% in the same period last year, primarily due to the amortization of customer contracts related to the Galt acquisition as described above.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash flows from operations, existing cash and cash equivalents and debt capacity available under our credit facility. Cash and cash equivalents, consisting of demand deposits and short-term commercial paper, decreased \$28.4 million from \$31.8 million at December 31, 2005 to \$3.4 million at June 30, 2006 primarily due to the acquisition of Galt and purchases of property and equipment.

Cash used in operating activities totaled \$2.5 million for the six months ended June 30, 2006, compared to cash provided by operating activities of \$3.6 million for the same period last year. Our operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable and accrued expenses, and accrued payroll and related benefits. The volume of billings and timing of collections and payments affect these account balances. Cash used for operations during the six months ended June 30, 2006 primarily consisted of cash payments for bonuses, payroll and related benefits that were accrued for at December 31, 2005. Receivables from clients and unbilled services increased \$14.6 million during the six months ended June 30, 2006, primarily due to increased revenues generated and billed.

Cash used in investing activities was \$33.8 million for the six months ended June 30, 2006 and \$16.7 million for the same period last year. The use of cash in the first half of 2006 primarily related to the acquisition of Galt and leasehold improvements at our offices in New York City and Boston. The use of cash in the first half of 2005 primarily related to the acquisition of S&W.

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We have a bank credit agreement that originally expired on February 10, 2006. On January 17, 2006, we extended the credit agreement for ninety days to May 10, 2006. On March 28, 2006, we further extended the credit agreement for another sixty days to July 10, 2006, and also amended certain terms of the original agreement.

On June 7, 2006, we entered into a new credit agreement with various financial institutions. Under the terms of this new unsecured revolving credit facility, we may borrow up to \$75.0 million. Additionally, we may elect to increase the revolver by \$25.0 million. Fees and interest on borrowings vary based on total debt to earnings before interest, taxes, depreciation and amortization (“EBITDA”) ratio as set forth in the credit agreement and will be based on a spread over LIBOR or a spread over the base rate, which is the greater of the Federal Funds Rate plus 0.5% or the Prime Rate, as selected by us. All outstanding principal is due upon expiration of the credit agreement on May 31, 2011. The credit agreement includes financial covenants that require the maintenance of certain interest coverage ratio, total debt to EBITDA ratio and net worth levels. In addition, certain acquisitions and similar transactions will need to be approved by the lenders.

During the six months ended June 30, 2006, the average daily outstanding balance under our credit facility was \$4.0 million. The amount outstanding at June 30, 2006 was \$6.5 million and bears interest at 5.7%. We had no borrowings outstanding under the bank credit agreement at December 31, 2005. At both June 30, 2006 and December 31, 2005, we were in compliance with the debt covenants under the credit facilities.

On July 31, 2006, we acquired Aaxis Technologies and Document Review Consulting Services LLC for an aggregate purchase price of approximately \$24 million (see “Subsequent Events” below). To fund these acquisitions, we borrowed \$22 million under our credit facility.

Future Needs

Our primary financing need has been to fund our growth. Our growth strategy includes hiring additional consultants and expanding our service offerings through existing consultants, new hires or acquisitions. We intend to fund such growth with funds generated from operations and borrowings under our credit agreement. Because we expect that our future annual growth rate in revenues and related percentage increases in working capital balances will moderate, we believe cash generated from operations, supplemented as necessary by borrowings under our credit facility, will be adequate to fund this growth. Our ability to secure short-term and long-term financing in the future will depend on several factors, including our future profitability, the quality of our accounts receivable and unbilled services, our relative levels of debt and equity and overall condition of the credit markets.

CONTRACTUAL OBLIGATIONS

The following table represents our obligations and commitments to make future payments under contracts, such as lease agreements, and under contingent commitments as of December 31, 2005 (in thousands).

| | Less than 1 Year | 1 to 3 Years | 4 to 5 Years | After 5 Years | Total |
|-------------------------------|------------------------|-----------------|-----------------|------------------|-----------|
| Notes payable | \$ 1,000 | \$ 2,000 | \$ ¾ | \$ ¾ | \$ 3,000 |
| Interest on notes payable | 120 | 120 | ¾ | ¾ | 240 |
| Capital lease obligations | 282 | 127 | ¾ | ¾ | 409 |
| Operating lease obligations | 7,003 | 27,010 | 14,916 | 25,629 | 74,558 |
| Purchase obligations | 997 | 322 | ¾ | ¾ | 1,319 |
| Total contractual obligations | \$ 9,402 | \$ 29,579 | \$ 14,916 | \$ 25,629 | \$ 79,526 |

We lease our facilities and certain equipment under operating lease arrangements expiring on various dates through 2016, with various renewal options. We lease office facilities under noncancelable operating leases that include fixed

or minimum payments plus, in some cases, scheduled base rent increases over the term of the lease. Certain leases provide for monthly payments of real estate taxes, insurance and other operating expense applicable to the property. Some of the leases contain provisions whereby the future rental payments may be adjusted for increases in operating expense above the specified amount.

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Purchase obligations include sponsorships, subscriptions to research tools and other commitments to purchase services where we cannot cancel or would be required to pay a termination fee in the event of cancellation.

As of June 30, 2006, we had bank borrowings outstanding under our credit agreement totaling \$6.5 million, which is due upon expiration of the credit agreement on May 31, 2011.

OFF BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements.

SUBSEQUENT EVENTS

On July 31, 2006, we acquired Axis Technologies and Document Review Consulting Services LLC to enhance our service offerings to the office of the general counsel and law firms. Under the terms of the purchase agreements, we acquired the two companies, including approximately \$6 million of accounts receivable, for an aggregate purchase price of approximately \$24 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks related to changes in interest rates and changes in the market value of our investments. We do not enter into interest rate swaps, caps or collars or other hedging instruments.

Our exposure to changes in interest rates is limited to borrowings under our bank credit agreement, which has variable interest rates tied to the LIBOR, Federal Funds rate or prime rate. At June 30, 2006, we had borrowings outstanding totaling \$6.5 million that bear interest at 5.7%. A one percent change in this interest rate would not have a material effect on our financial position or operating results.

At June 30, 2006, we had notes payable totaling \$2.0 million that are payable in \$1.0 million installments in May 2007 and 2008. We are not exposed to interest rate risks in respect to these notes as they bear a fixed interest rate at 4% per annum.

From time to time, we invest excess cash in marketable securities. These investments principally consist of overnight sweep accounts and short-term commercial paper. Due to the short maturity of our investments, we have concluded that we do not have material market risk exposure.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2006. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2006, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the "Exchange Act") that occurred during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II ¾ OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

From time to time, the Company is involved in various legal matters arising out of the ordinary course of business. Although the outcome of these matters cannot presently be determined, in the opinion of management, disposition of these matters will not have a material adverse effect on the financial position or results of operations of the Company.

ITEM 1A. RISK FACTORS

See “Risk Factors” in the Company’s 2005 annual report on Form 10-K for a complete description of the material risks it faces. There have been no material changes to our business risk factors since December 31, 2005.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Our 2004 Omnibus Stock Plan permits the netting of common stock upon vesting of restricted stock awards to satisfy individual tax withholding requirements. During the quarter ended June 30, 2006, the Company redeemed such shares as presented in the table below.

| Period | Total Number of Shares Redeemed to Satisfy Employee Tax Withholding Requirements | Weighted-Average Fair Market Value Per Share Redeemed | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------|---|--|---|---|
| May 2006 | 4,342 | \$ 34.43 | N/A | N/A |

N/A - Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders of Huron Consulting Group Inc. was held on May 2, 2006, and a total of 16,649,887 shares were present in person or by proxy at the meeting. The shareholders of Huron Consulting Group Inc. voted on the following proposals:

Proposal No. 1 - Election of directors

| Name | Shares For | Shares Withheld |
|---------------|-------------------|------------------------|
| Dubose Ausley | 15,349,806 | 1,300,081 |
| John S. Moody | 15,867,761 | 782,126 |

Proposal No. 2 - To approve an amendment to the Company's 2004 Omnibus Stock Plan.

| Shares For | Shares Against | Shares Abstain | Non-vote |
|---------------|-------------------|-------------------|-----------|
| 9,035,342 | 6,405,380 | 66,572 | 1,142,593 |

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

(a) The following exhibits are filed as part of this Quarterly Report on Form 10-Q.

Exhibit

Number Exhibit

| | |
|-------|--|
| 10.37 | Senior Management Agreement, effective as of May 15, 2002, between Huron Consulting Services LLC (formerly known as Huron Consulting Group LLC) and Susan Gallagher. |
| 10.38 | First Amendment to Senior Management Agreement between Huron Consulting Services LLC (formerly known as Huron Consulting Group LLC) and Susan Gallagher. |
| 10.39 | Senior Management Agreement, effective as of April 1, 2006, between Huron Consulting Group Inc. and Stanley N. Logan. |
| 31.1 | Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Huron Consulting Group Inc.
(Registrant)

Date: August 8,
2006

/s/ Gary L. Burge

Gary L. Burge
Vice President,
Chief Financial Officer and
Treasurer

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