

Huron Consulting Group Inc.  
Form 10-Q  
April 28, 2015  
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**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 March 31, 2015**

**OR**

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

**Commission file number: 000-50976**

**HURON CONSULTING GROUP INC.**

**(Exact name of registrant as specified in its charter)**

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

**01-0666114**  
**(IRS Employer**  
**Identification Number)**

**550 West Van Buren Street**

**Chicago, Illinois**

**60607**

**(Address of principal executive offices)**

**(Zip Code)**

**(312) 583-8700**

**(Registrant's telephone number, including area code)**

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

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

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

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

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

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

As of April 21, 2015, 23,160,670 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.



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**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS****HURON CONSULTING GROUP INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)****(Unaudited)**

|   | <b>March 31,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|---|---------------------------|------------------------------|
| <b>Assets</b>                               |                           |                              |
| Current assets:                             |                           |                              |
| Cash and cash equivalents                   | \$ 7,183                  | \$ 256,872                   |
| Receivables from clients, net               | 115,492                   | 98,640                       |
| Unbilled services, net                      | 105,714                   | 91,392                       |
| Income tax receivable                       | 8,413                     | 8,125                        |
| Deferred income taxes, net                  | 14,155                    | 14,772                       |
| Prepaid expenses and other current assets   | 14,220                    | 16,358                       |
| <b>Total current assets</b>                 | <b>265,177</b>            | <b>486,159</b>               |
| Property and equipment, net                 | 48,978                    | 44,677                       |
| Long-term investment                        | 14,700                    | 12,250                       |
| Other non-current assets                    | 26,099                    | 20,998                       |
| Intangible assets, net                      | 119,110                   | 24,684                       |
| Goodwill                                    | 807,677                   | 567,146                      |
| <b>Total assets</b>                         | <b>\$ 1,281,741</b>       | <b>\$ 1,155,914</b>          |
| <b>Liabilities and stockholders equity</b>  |                           |                              |
| Current liabilities:                        |                           |                              |
| Accounts payable                            | \$ 12,708                 | \$ 11,085                    |
| Accrued expenses                            | 22,050                    | 17,315                       |
| Accrued payroll and related benefits        | 42,697                    | 106,488                      |
| Current maturities of long-term debt        |                           | 28,750                       |
| Deferred revenues                           | 19,600                    | 12,738                       |
| <b>Total current liabilities</b>            | <b>97,055</b>             | <b>176,376</b>               |
| Non-current liabilities:                    |                           |                              |
| Deferred compensation and other liabilities | 16,933                    | 10,838                       |
| Long-term debt, net of current portion      | 498,356                   | 327,852                      |
| Deferred lease incentives                   | 13,832                    | 13,359                       |
| Deferred income taxes, net                  | 45,507                    | 26,855                       |

|                               |         |         |
|-------------------------------|---------|---------|
| Total non-current liabilities | 574,628 | 378,904 |
|-------------------------------|---------|---------|

### Commitments and Contingencies

#### Stockholders equity

|  |                     |                     |
|--|---------------------|---------------------|
| Common stock; \$0.01 par value; 500,000,000 shares authorized; 25,336,102 and 24,976,395 shares issued at March 31, 2015 and December 31, 2014, respectively | 244                 | 241                 |
| Treasury stock, at cost, 2,168,191 and 2,097,173 shares at March 31, 2015 and December 31, 2014, respectively  | (98,811)            | (94,074)            |
| Additional paid-in capital   | 455,659             | 442,308             |
| Retained earnings  | 256,316             | 254,814             |
| Accumulated other comprehensive loss   | (3,350)             | (2,655)             |
| <b>Total stockholders equity</b>   | <b>610,058</b>      | <b>600,634</b>      |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 1,281,741</b> | <b>\$ 1,155,914</b> |

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

Table of Contents**HURON CONSULTING GROUP INC.****CONSOLIDATED STATEMENTS OF EARNINGS AND OTHER COMPREHENSIVE INCOME****(In thousands, except per share amounts)****(Unaudited)**

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2015</b>                             | <b>2014</b> |
| <b>Revenues and reimbursable expenses:</b>  |   |             |
| Revenues  | \$ 187,853                              | \$ 210,731  |
| Reimbursable expenses   | 17,155                                  | 19,103      |
| Total revenues and reimbursable expenses  | 205,008                                 | 229,834     |
| <b>Direct costs and reimbursable expenses</b> (exclusive of depreciation and amortization shown in operating expenses): |   |             |
| Direct costs  | 125,001                                 | 123,610     |
| Amortization of intangible assets and software development costs  | 2,512                                   | 1,101       |
| Reimbursable expenses   | 17,253                                  | 19,431      |
| Total direct costs and reimbursable expenses  | 144,766                                 | 144,142     |
| <b>Operating expenses and other operating gain:</b>   |   |             |
| Selling, general and administrative expenses  | 42,333                                  | 37,688      |
| Restructuring charges   | 1,590                                   | 129         |
| Other gain  | (226)                                   |             |
| Depreciation and amortization   | 7,777                                   | 6,056       |
| Total operating expenses and other operating gain   | 51,474                                  | 43,873      |
| Operating income  | 8,768                                   | 41,819      |
| <b>Other income (expense), net:</b>   |   |             |
| Interest expense, net of interest income  | (4,394)                                 | (1,371)     |
| Other income (expense), net   | (727)                                   | 176         |
| Total other expense, net  | (5,121)                                 | (1,195)     |
| Income before income tax expense  | 3,647                                   | 40,624      |
| Income tax expense  | 2,145                                   | 6,498       |
| Net income  | \$ 1,502                                | \$ 34,126   |
| Earnings per share:   |   |             |
| Basic   | \$ 0.07                                 | \$ 1.51     |

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|   |          |           |
|---|----------|-----------|
| Diluted   | \$ 0.07  | \$ 1.48   |
| Weighted average shares used in calculating earnings per share: |          |           |
| Basic   | 22,126   | 22,588    |
| Diluted   | 22,602   | 23,086    |
| <b>Comprehensive income:</b>                                    |          |           |
| Net income  | \$ 1,502 | \$ 34,126 |
| Foreign currency translation loss, net of tax                   | (436)    | (106)     |
| Unrealized loss on investment, net of tax                       | (50)     |           |
| Unrealized loss on cash flow hedging instruments, net of tax    | (209)    | (24)      |
| Other comprehensive loss  | (695)    | (130)     |
| Comprehensive income  | \$ 807   | \$ 33,996 |

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



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

|  | Common Stock |        | Treasury Stock |             | Additional | Retained   | Accumulated Other | Stockholders |
|--|--------------|--------|----------------|-------------|------------|------------|-------------------|--------------|
|  | Shares       | Amount | Shares         | Amount      | Paid-In    | Earnings   | Comprehensive     | Equity       |
|  |              |        |                |             | Capital    |            | Loss              |              |
| <b>Balance at December 31, 2014</b>            | 24,115,593   | \$ 241 | (2,109,316)    | \$ (94,074) | \$ 442,308 | \$ 254,814 | \$ (2,655)        | \$ 600,634   |
| Comprehensive income                           |              |        |                |             |            | 1,502      | (695)             | 807          |
| Issuance of common stock in connection with:   |              |        |                |             |            |            |                   |              |
| Restricted stock awards, net of cancellations  | 327,400      | 3      | (5,016)        | (252)       | 249        |            |                   |              |
| Business acquisition                           | 28,486       |        |                |             | 2,204      |            |                   | 2,204        |
| Share-based compensation                       |              |        |                |             | 8,167      |            |                   | 8,167        |
| Shares redeemed for employee tax withholdings  |              |        | (66,629)       | (4,485)     |            |            |                   | (4,485)      |
| Income tax benefit on share-based compensation |              |        |                |             | 2,731      |            |                   | 2,731        |
| <b>Balance at March 31, 2015</b>               | 24,471,479   | \$ 244 | (2,180,961)    | \$ (98,811) | \$ 455,659 | \$ 256,316 | \$ (3,350)        | \$ 610,058   |

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

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

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2015</b>               | <b>2014</b> |
| <b>Cash flows from operating activities:</b>                                  |                           |             |
| Net income  | \$ 1,502                  | \$ 34,126   |
| Adjustments to reconcile net income to net cash used in operating activities: |                           |             |
| Depreciation and amortization   | 10,289                    | 7,157       |
| Share-based compensation  | 5,280                     | 5,136       |
| Amortization of debt discount and issuance costs                              | 2,365                     | 342         |
| Allowances for doubtful accounts and unbilled services                        | (1,904)                   | (72)        |
| Deferred income taxes   | 2,716                     | 9,829       |
| Changes in operating assets and liabilities, net of acquisitions:             |                           |             |
| (Increase) decrease in receivables from clients                               | (6,547)                   | 27,757      |
| (Increase) decrease in unbilled services                                      | (7,984)                   | (34,329)    |
| (Increase) decrease in current income tax receivable / payable, net           | (359)                     | (13,703)    |
| (Increase) decrease in other assets   | 1,816                     | 5,436       |
| Increase (decrease) in accounts payable and accrued liabilities               | 9,886                     | 8,289       |
| Increase (decrease) in accrued payroll and related benefits                   | (62,450)                  | (57,169)    |
| Increase (decrease) in deferred revenues                                      | 3,236                     | (1,964)     |
| Net cash used in operating activities   | (42,154)                  | (9,165)     |
| <b>Cash flows from investing activities:</b>                                  |                           |             |
| Purchases of property and equipment, net                                      | (6,482)                   | (4,840)     |
| Investment in life insurance policies   | (4,941)                   | (167)       |
| Purchases of businesses   | (331,807)                 | (17,430)    |
| Purchase of convertible debt investment                                       | (2,500)                   |             |
| Proceeds from note receivable   |                           | 219         |
| Net cash used in investing activities   | (345,730)                 | (22,218)    |
| <b>Cash flows from financing activities:</b>                                  |                           |             |
| Proceeds from exercise of stock options                                       |                           | 740         |
| Shares redeemed for employee tax withholdings                                 | (4,485)                   | (3,067)     |
| Tax benefit from share-based compensation                                     | 2,734                     | 3,477       |
| Proceeds from borrowings under credit facility                                | 197,500                   |             |
| Repayments on credit facility   | (57,500)                  | (6,250)     |
| Payments for capital lease obligations  | (20)                      | (21)        |

|  |           |           |
|--|-----------|-----------|
| Net cash provided by (used in) financing activities  | 138,229   | (5,121)   |
| Effect of exchange rate changes on cash              | (34)      | 14        |
| Net decrease in cash and cash equivalents            | (249,689) | (36,490)  |
| Cash and cash equivalents at beginning of the period | 256,872   | 58,131    |
| Cash and cash equivalents at end of the period       | \$ 7,183  | \$ 21,641 |

**Supplemental disclosure of cash flow information:**

Non-cash investing and financing activities:

|   |          |          |
|---|----------|----------|
| Property and equipment expenditures included in accounts payable and accrued expenses | \$ 1,860 | \$ 4,174 |
| Contingent consideration related to business acquisitions                             | \$ 900   | \$ 590   |
| Common stock issued related to business acquisition                                   | \$ 2,204 | \$       |

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

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Tabular amounts in thousands, except per share amounts)**

**(Unaudited)**

**1. Description of Business**

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

**2. Basis of Presentation**

The accompanying unaudited Consolidated Financial Statements reflect the financial position, results of operations, and cash flows as of and for the three months ended March 31, 2015 and 2014. These financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ) for Quarterly Reports on Form 10-Q. Accordingly, these financial statements do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America ( GAAP ) for annual financial statements. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair statement of our financial position, results of operations, and cash flows for the interim periods presented in conformity with GAAP. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto for the year ended December 31, 2014 included in our Annual Report on Form 10-K.

Certain amounts reported in the previous year have been reclassified to conform to the 2015 presentation. Our results for any interim period are not necessarily indicative of results for a full year or any other interim period.

**3. New Accounting Pronouncements**

In April 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability, consistent with debt discounts. This guidance is effective for us beginning in the first quarter of 2016 and will be applied on a retrospective basis. Early adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*, which amends the consolidation requirements in Accounting Standards Codification ( ASC ) 810, *Consolidation*. ASU 2015-02 makes targeted amendments to the current consolidation guidance, which could change consolidation conclusions. This guidance will be effective for us beginning in our first quarter of 2016 and early adoption is permitted. We are

currently evaluating the potential effect of adopting this guidance on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, as a new Topic, ASC 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for us beginning in the first quarter of 2017 and is to be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption is not permitted. We are currently evaluating the potential effect of adopting this guidance on our consolidated financial statements, as well as the transition methods.

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(Tabular amounts in thousands, except per share amounts)

(Unaudited)

**4. Goodwill and Intangible Assets**

The table below sets forth the changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2015.

|  | <b>Huron<br/>Healthcare</b> | <b>Huron<br/>Legal</b> | <b>Huron<br/>Education<br/>and Life<br/>Sciences</b> | <b>Huron<br/>Business<br/>Advisory</b> | <b>Total</b> |
|--|-----------------------------|------------------------|--|--|--------------|
| Balance as of December 31, 2014:                           |                             |                        |  |  |              |
| Goodwill   | \$ 377,588                  | \$ 52,555              | \$ 102,906   | \$ 177,080                             | \$ 710,129   |
| Accumulated impairment                                     |                             |                        |  | (142,983)                              | (142,983)    |
| Goodwill, net as of December 31, 2014                      | 377,588                     | 52,555                 | 102,906  | 34,097                                 | 567,146      |
| Goodwill recorded in connection with business acquisitions | 234,102                     | 7,213                  |  |  | 241,315      |
| Foreign currency translation                               |                             | (421)                  |  | (363)                                  | (784)        |
| Goodwill, net as of March 31, 2015                         | \$ 611,690                  | \$ 59,347              | \$ 102,906   | \$ 33,734                              | \$ 807,677   |

Refer to Note 5 Acquisitions for additional information on our recent acquisitions.

Intangible assets as of March 31, 2015 and December 31, 2014 consisted of the following:

|                            | <b>Useful<br/>Life in<br/>Years</b> | <b>March 31, 2015</b>                |                                     | <b>December 31, 2014</b>             |                                     |
|----------------------------|-------------------------------------|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
|                            |                                     | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> |
| Customer contracts         | 1 to 4                              | \$ 25,313                            | \$ 1,550                            | \$ 243                               | \$ 71                               |
| Customer relationships     | 3 to 14                             | 84,955                               | 23,393                              | 42,345                               | 21,228                              |
| Non-competition agreements | 2 to 5                              | 3,665                                | 1,307                               | 3,495                                | 1,072                               |
| Trade names                | 1 to 8                              | 22,960                               | 651                                 | 160                                  | 67                                  |
| Technology and software    | 3 to 7                              | 9,251                                | 3,907                               | 4,321                                | 3,461                               |

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|                    |   |            |           |           |           |
|--------------------|---|------------|-----------|-----------|-----------|
| Publishing content | 3 | 3,900      | 138       |           |           |
| License            | 2 | 50         | 38        | 50        | 31        |
| Total              |   | \$ 150,094 | \$ 30,984 | \$ 50,614 | \$ 25,930 |

Identifiable intangible assets with finite lives are amortized over their estimated useful lives. The customer contracts and trade name acquired in the acquisition of Studer Group and the majority of customer relationships are amortized on an accelerated basis to correspond to the cash flows expected to be derived from the assets. All other intangible assets are amortized on a straight-line basis. Refer to Note 5 Acquisitions for additional information on the intangible assets acquired in the Studer Group acquisition.

Intangible assets amortization expense was \$5.1 million and \$2.5 million for the three months ended March 31, 2015 and 2014, respectively. Estimated annual intangible assets amortization expense is \$30.2 million for 2015, \$29.3 million for 2016, \$24.9 million for 2017, \$14.6 million for 2018, \$9.2 million for 2019, and \$5.7 million for 2020. Actual future amortization expense could differ from these estimated amounts as a result of future acquisitions and other factors.

Table of Contents**HURON CONSULTING GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Tabular amounts in thousands, except per share amounts)****(Unaudited)****5. Acquisitions***Studer Holdings, Inc.*

On February 12, 2015, we acquired 100% of the outstanding stock of Studer Holdings, Inc. ( Studer Group ) from the existing shareholders in accordance with an Agreement and Plan of Merger dated January 26, 2015 (the Merger Agreement ). Studer Group is a professional services firm that assists healthcare providers achieve cultural transformation to deliver and sustain improvement in clinical outcomes and financial results. The acquisition combines Huron Healthcare's performance improvement and clinical transformation capabilities with Studer Group's Evidence-Based Leadership<sup>SM</sup> framework to provide leadership and cultural transformation expertise for healthcare provider clients.

The acquisition date fair value of the consideration transferred for Studer Group was approximately \$325.5 million, which consisted of the following:

| <b>Fair value of consideration transferred</b>     |                   |
|--|-------------------|
| Cash   | \$ 323,055        |
| Common stock                                       | 2,204             |
| Accrued preliminary net working capital adjustment | 282               |
| <b>Total consideration transferred</b>             | <b>\$ 325,541</b> |

We funded the cash component of the purchase price with cash on hand and borrowings of \$102.0 million under our senior secured credit facility. We issued 28,486 shares of our common stock as part of the consideration transferred, with an acquisition date fair value of \$2.2 million based on the closing price of \$77.35 on the date of acquisition. The purchase price is further subject to a working capital adjustment.

The acquisition was accounted for using the acquisition method of accounting. Tangible and identifiable intangible assets acquired and liabilities assumed are recorded at fair value as of the acquisition date. The current fair values of assets acquired and liabilities assumed are considered preliminary and are based on the information that was available as of the date of the acquisition. We believe that the information provides a reasonable basis for estimating the preliminary fair values of assets acquired and liabilities assumed, but certain items, such as taxes payable, deferred taxes, deferred revenues, the intangible assets valuation, and the working capital adjustment, among other things, may be subject to change as additional information is received. Thus, the provisional measurements of fair value and goodwill are subject to change. We expect to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.



The following table summarizes the preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed as of the acquisition date.

|  |            |
|--|------------|
| <b>Assets acquired:</b>                        |            |
| Accounts receivable                            | \$ 14,752  |
| Prepaid expenses and other current assets      | 1,385      |
| Deferred income tax asset                      | 4,383      |
| Property and equipment                         | 4,572      |
| Intangible assets                              | 97,500     |
| <b>Liabilities assumed:</b>                    |            |
| Accounts payable                               | 594        |
| Accrued expenses and other current liabilities | 2,859      |
| Accrued payroll and related benefits           | 1,574      |
| Deferred revenues                              | 3,600      |
| Deferred income tax liability                  | 21,315     |
| Other non-current liabilities                  | 1,211      |
| <br>   |            |
| Total identifiable net assets                  | 91,439     |
| Goodwill                                       | 234,102    |
| <br>   |            |
| Total purchase price                           | \$ 325,541 |

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

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the acquisition date.

|   | <b>Fair Value</b> | <b>Useful Life in<br/>Years</b> |
|---|-------------------|---------------------------------|
| Customer relationships                              | \$ 42,400         | 9                               |
| Customer contracts                                  | 25,100            | 4                               |
| Trade name  | 22,800            | 5                               |
| Technology and software                             | 3,900             | 3                               |
| Publishing content                                  | 3,300             | 3                               |
| <br>Total intangible assets subject to amortization | <br>\$ 97,500     |                                 |

The weighted-average amortization period for the identifiable intangible assets shown above is 6.3 years. Customer relationships and customer contracts represent the fair values of the underlying relationships and agreements with Studer Group customers. The trade name represents the fair value of the brand and name recognition associated with the marketing of Studer Group's service offerings. Technology and software and publishing content represent the estimated fair values of Studer Group's software and books that are sold to customers. Goodwill is recognized for the excess of purchase price over the net fair value of assets acquired and liabilities assumed, and largely consists of the expanded market opportunities expected from combining the service offerings of Huron and Studer Group, as well as the assembled workforce of Studer Group. Goodwill recognized in conjunction with the acquisition of Studer Group was recorded in the Huron Healthcare segment. Goodwill of \$119.5 million is expected to be deductible for income tax purposes.

Studer Group's results of operations have been included in our unaudited consolidated statements of earnings and results of operations of our Huron Healthcare segment from the date of acquisition. For the three months ended March 31, 2015, the acquisition of Studer Group increased our net revenue by \$11.4 million and our operating income by \$1.2 million, which includes \$2.8 million of amortization expense for intangible assets acquired. In connection with the acquisition of Studer Group, we incurred \$1.9 million in transaction and acquisition-related expenses, \$0.9 million of which were incurred in the fourth quarter of 2014 and the remaining \$1.0 million were incurred in the first three months of 2015. These costs are recorded in selling, general, and administrative expenses in the period in which they were incurred.

The following supplemental pro forma information summarizes the combined results of operations for Huron and Studer Group as though the companies were combined on January 1, 2014.

|                                | <b>Three Months Ended</b> |             |
|--------------------------------|---------------------------|-------------|
|                                | <b>March 31,</b>          |             |
|                                | <b>2015</b>               | <b>2014</b> |
| Revenues                       | \$ 198,675                | \$ 228,059  |
| Net income                     | \$ 2,079                  | \$ 32,186   |
| Net income per share - basic   | \$ 0.09                   | \$ 1.42     |
| Net income per share - diluted | \$ 0.09                   | \$ 1.39     |

The historical financial information has been adjusted to give effect to the pro forma adjustments, which consist of intangible assets amortization expense, transaction and acquisition-related costs, interest expense, the related income tax effects, and shares issued as consideration. These adjustments are based upon currently available information and certain assumptions. Therefore, the pro forma consolidated results are not necessarily indicative of what the Company's consolidated results of operations actually would have been had it completed the acquisition on January 1, 2014. The historical results included in the pro forma consolidated results do not purport to project future results of operations of the combined company nor do they reflect the expected realization of any cost savings or revenue synergies associated with the acquisition.

*Sky Analytics, Inc.*

Effective January 1, 2015, we completed the acquisition of Sky Analytics, Inc., a Massachusetts-based provider of legal spend management software for corporate law departments. The acquisition date fair value of the consideration transferred totaled \$9.7 million, which includes cash of \$8.8 million and the fair value of contingent consideration of \$0.9 million. As part of the purchase price allocation, we recorded \$2.0 million of intangible assets and \$7.2 million of goodwill. The goodwill balance is not deductible for income tax purposes.

Table of Contents**HURON CONSULTING GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Tabular amounts in thousands, except per share amounts)****(Unaudited)****6. Earnings Per Share**

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

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2015</b>                                 | <b>2014</b> |
| Net income   | \$ 1,502                                    | \$ 34,126   |
| Weighted average common shares outstanding basic   | 22,126                                      | 22,588      |
| Weighted average common stock equivalents          | 476   | 498         |
| Weighted average common shares outstanding diluted | 22,602                                      | 23,086      |
| <b>Earnings per share:</b>                         |   |             |
| Basic  | \$ 0.07                                     | \$ 1.51     |
| Diluted  | \$ 0.07                                     | \$ 1.48     |

The anti-dilutive securities excluded from the computation of the weighted average common stock equivalents presented above are shown in the following table. There were no anti-dilutive securities excluded related to unvested restricted stock awards or outstanding common stock options as of March 31, 2015 and 2014.

|  | <b>As of March 31,</b> |             |
|--|------------------------|-------------|
|  | <b>2015</b>            | <b>2014</b> |
| Convertible senior notes                                     | 3,129                  |             |
| Warrants related to the issuance of convertible senior notes | 3,129                  |             |
| <b>Total anti-dilutive securities</b>                        | <b>6,258</b>           |             |

See Note 7 Financing Arrangements for further information on the convertible senior notes and warrants related to the issuance of convertible notes.

In October 2014, our board of directors authorized a share repurchase program pursuant to which we may, from time to time, repurchase up to \$50 million of our common stock through October 31, 2015 (the October 2014 Share Repurchase Program). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, general market and business conditions, and applicable legal requirements. As of March 31, 2015, no shares had been repurchased under the October 2014 Share Repurchase Program.

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A summary of the carrying amounts of our debt is as follows:

|   | <b>March 31, 2015</b> | <b>December 31, 2014</b> |
|---|-----------------------|--------------------------|
| 1.25% convertible senior notes due 2019       | \$ 214,606            | \$ 212,852               |
| Senior secured credit facility                | 283,750               | 143,750                  |
| <b>Total debt</b>                             | <b>498,356</b>        | <b>356,602</b>           |
| Current maturities of debt                    |                       | (28,750)                 |
| <b>Long-term debt, net of current portion</b> | <b>\$ 498,356</b>     | <b>\$ 327,852</b>        |

***Convertible Notes***

In September 2014, the Company issued \$250 million principal amount of 1.25% convertible senior notes due 2019 (the *Convertible Notes*) in a private offering. The *Convertible Notes* are governed by the terms of an indenture between the Company and U.S. Bank National Association, as Trustee (the *Indenture*). The *Convertible Notes* are senior unsecured obligations of the Company and will pay interest semi-annually on April 1 and October 1 of each year at an annual rate of 1.25%. The *Convertible Notes* will mature on October 1, 2019, unless earlier repurchased by the Company or converted in accordance with their terms.

Upon conversion, the *Convertible Notes* will be settled, at our election, in cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock. Our current intent and policy is to settle conversions with a combination of cash and shares of common stock with the principal amount of the *Convertible Notes* paid in cash, in accordance with the settlement provisions of the *Indenture*.

The initial conversion rate for the *Convertible Notes* is 12.5170 shares of our common stock per \$1,000 principal amount of the *Convertible Notes*, which is equal to an initial conversion price of approximately \$79.89 per share of our common stock. The conversion rate will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest, except in certain limited circumstances described in the *Indenture*. Upon the occurrence of a *make-whole fundamental change* (as defined in the *Indenture*) the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its *Convertible Notes* in connection with such *make-whole fundamental change*. Additionally, if the Company undergoes a *fundamental change* (as defined in the *Indenture*), a holder will have the option to require the Company to repurchase all or a portion of its *Convertible Notes* for cash at a price equal to 100% of the principal amount of the

Convertible Notes being repurchased plus any accrued and unpaid interest. As discussed below, the warrants, which were entered into in connection with the Convertible Notes, effectively raise the price at which economic dilution would occur from the initial conversion price of approximately \$79.89 to approximately \$97.12 per share.

Holders of the Convertible Notes may convert their Convertible Notes at their option at any time prior to July 1, 2019, only under the following circumstances:

during any calendar quarter (and only during such calendar quarter) commencing after December 31, 2014 if, for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on, and including, the last trading day of the immediately preceding calendar quarter, the last reported sale price of the Company's common stock for such trading day is equal to or greater than 130% of the applicable conversion price on such trading day;

during the five consecutive business day period immediately following any five consecutive trading day period (such five consecutive trading day period, the measurement period) in which, for each trading day of the measurement period, the trading price (as defined in the Indenture) per \$1,000 principal amount of the Convertible Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's common stock for such trading day and the applicable conversion rate on such trading day; or

upon the occurrence of specified corporate transactions described in the Indenture.

On or after July 1, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or a portion of its Convertible Notes, regardless of the foregoing circumstances.

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In accordance with ASC 470, *Debt*, we have separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was determined by measuring the fair value of a similar liability that does not have an associated convertible feature, assuming our non-convertible debt borrowing rate. The carrying value of the equity component representing the conversion option, which is recognized as a debt discount, was determined by deducting the fair value of the liability component from the proceeds of the Convertible Notes. The debt discount is amortized to interest expense using an effective interest rate of 4.837% over the term of the Convertible Notes. As of March 31, 2015, the remaining life of the Convertible Notes is 4.5 years. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

As of March 31, 2015 and December 31, 2014, the Convertible Notes consisted of the following:

|  | <b>March 31, 2015</b> | <b>December 31, 2014</b> |
|--|-----------------------|--------------------------|
| <b>Liability component:</b>              |                       |                          |
| Proceeds                                 | \$ 250,000            | \$ 250,000               |
| Less: debt discount, net of amortization | (35,394)              | (37,148)                 |
| Net carrying amount                      | \$ 214,606            | \$ 212,852               |
| Equity component <sup>(1)</sup>          | \$ 39,287             | \$ 39,287                |

<sup>(1)</sup> Included in Additional paid-in capital on the consolidated balance sheet.

The transaction costs related to the issuance of the Convertible Notes were separated into liability and equity components based on their relative values, as determined above. Transaction costs attributable to the liability component are capitalized and amortized to interest expense over the term of the Convertible Notes, and transaction costs attributable to the equity component were netted with the equity component of the Convertible Notes in stockholders' equity. Total debt issuance costs were approximately \$7.3 million, of which \$6.2 million was allocated to liability issuance costs and \$1.1 million was allocated to equity issuance costs.

The following table presents the amount of interest expense recognized related to the Convertible Notes for the period presented.



|                                     | <b>Three Months Ended</b> |           |
|-------------------------------------|---------------------------|-----------|
|                                     | <b>March 31, 2015</b>     |           |
| Contractual interest coupon         | \$                        | 781       |
| Amortization of debt issuance costs |                           | 293       |
| Amortization of debt discount       |                           | 1,754     |
| <br>Total interest expense          | <br>\$                    | <br>2,828 |

In connection with the issuance of the Convertible Notes, we entered into convertible note hedge transactions and warrant transactions. The convertible note hedge transactions are intended to reduce the potential future economic dilution associated with the conversion of the Convertible Notes and, combined with the warrants, effectively raise the price at which economic dilution would occur from the initial conversion price of approximately \$79.89 to approximately \$97.12 per share. For purposes of the computation of diluted earnings per share in accordance with U.S. GAAP, dilution will occur when the average share price of our common stock for a given period exceeds the conversion price of the Convertible Notes, which initially is equal to approximately \$79.89 per share. The convertible note hedge transactions and warrant transactions are discussed separately below.

*Convertible Note Hedge Transactions.* In connection with the issuance of the Convertible Notes, the Company entered into convertible note hedge transactions whereby the Company has call options to purchase a total of approximately 3.1 million shares of the Company's common stock, which is the number of shares initially issuable upon conversion of the Convertible Notes in full, at a price of approximately \$79.89, which corresponds to the initial conversion price of the Convertible Notes, subject to customary anti-dilution adjustments substantially similar to those in the Convertible Notes. The convertible note hedge transactions are exercisable upon conversion of the Convertible Notes and will expire in 2019 if not earlier exercised. We paid an aggregate amount of \$42.1 million for the convertible note hedge transactions, which was recorded as additional paid-in capital in the consolidated balance sheets. The convertible note hedge transactions are separate transactions and are not part of the terms of the Convertible Notes.

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*Warrants.* In connection with the issuance of the Convertible Notes, the Company sold warrants whereby the holders of the warrants have the option to purchase a total of approximately 3.1 million shares of the Company's common stock at a strike price of approximately \$97.12. The warrants will expire incrementally on 100 different dates from January 6, 2020 to May 28, 2020 and are exercisable at each such expiry date. If the average market value per share of our common stock for the reporting period exceeds the strike price of the warrants, the warrants will have a dilutive effect on our earnings per share. We received aggregate proceeds of \$23.6 million from the sale of the warrants, which was recorded as additional paid-in capital in the consolidated balance sheets. The warrants are separate transactions and are not part of the terms of the Convertible Notes or the convertible note hedge transactions.

The Company recorded an initial deferred tax liability of \$15.4 million in connection with the debt discount associated with the Convertible Notes and recorded an initial deferred tax asset of \$16.5 million in connection with the convertible note hedge transactions. The deferred tax liability and deferred tax asset are included in non-current deferred tax liabilities on the consolidated balance sheets.

***Senior Secured Credit Facility***

On March 31, 2015, the Company and certain of the Company's subsidiaries entered into a Second Amended and Restated Credit Agreement dated as of March 31, 2015 (the "Amended Credit Agreement") by and among the Company, as borrower, certain subsidiaries of the Company, as guarantors, the lenders identified therein, and Bank of America, N.A., as administrative agent and collateral agent, consisting of a \$500 million five-year senior secured revolving credit facility. The Amended Credit Agreement matures on March 31, 2020 and amended and restated, in its entirety, the Amended and Restated Credit Agreement entered into as of April 14, 2011 (as amended and modified, the "Existing Credit Agreement"). The Amended Credit Agreement provides for, among other things, an extension of the maturity date and a reduction in pricing, and replaced the existing revolving credit and term loan facility with an increased revolving credit facility.

The Amended Credit Agreement provides for the option to increase the revolving credit facility or establish term loan facilities in an aggregate amount of up to \$100 million, subject to customary conditions and the approval of any lender whose commitment would be increased, resulting in a maximum available principal amount under the Amended Credit Agreement of \$600 million.

The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under the Existing Credit Agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, share repurchases, and general corporate purposes.

Fees and interest on borrowings vary based on our Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). At our option, borrowings under the Amended Credit Agreement will bear interest at either one, two, three or six month LIBOR or an alternate base rate, in each case plus the applicable margin. Borrowings will initially

bear interest at LIBOR plus 1.50% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus 0.50% per annum, in the case of base rate loans. After the date the compliance certificate is required to be received for the quarter ending March 31, 2015, the applicable margin will fluctuate between 1.25% per annum and 1.75% per annum, in the case of LIBOR borrowings, or between 0.25% per annum and 0.75% per annum, in the case of base rate loans, based upon the our Consolidated Leverage Ratio at such time.

Amounts borrowed under the Amended Credit Agreement may be prepaid at any time without premium or penalty. We are required to prepay the amounts outstanding under the Amended Credit Agreement in certain circumstances, including a requirement to pay all amounts outstanding under the Amended Credit Agreement 90 days prior to the Convertible Indebtedness Maturity Date (as defined in the Amended Credit Agreement) unless (1) the Convertible Indebtedness Maturity Date is waived or extended to a later date, (2) the Company can demonstrate (a) Liquidity (as defined in the Amended Credit Agreement) in an amount at least equal to the principal amount due on the Convertible Indebtedness Maturity Date, and (b) financial covenant compliance after giving effect to such payments and any additional indebtedness incurred on a pro forma basis, or (3) this requirement is waived by the Required Lenders (as defined in the Amended Credit Agreement). In addition, we have the right to permanently reduce or terminate the unused portion of the commitments provided under the Amended Credit Agreement at any time.

The loans and obligations under the Amended Credit Agreement are secured pursuant to a Second Amended and Restated Security Agreement and a Second Amended and Restated Pledge Agreement (the Amended Pledge Agreement ) with Bank of America, N.A. as collateral agent, pursuant to which the Company and the subsidiary guarantors grant Bank of America, N.A., for the ratable benefit of the lenders under the Amended Credit Agreement, a first-priority lien, subject to permitted liens, on substantially all of the personal

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property assets of the Company and the subsidiary guarantors, and a pledge of 100% of the stock or other equity interests in all domestic subsidiaries and 65% of the stock or other equity interests in each material first-tier foreign subsidiary (as defined in the Amended Pledge Agreement).

The Amended Credit Agreement contains usual and customary representations and warranties; affirmative and negative covenants, which include limitations on liens, investments, additional indebtedness, and restricted payments; and two quarterly financial covenants as follows: (i) a maximum Consolidated Leverage Ratio of either 3.25 to 1.00 or 3.50 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (as defined in the Amended Credit Agreement) of 3.50 to 1.00. At March 31, 2015, we were in compliance with these financial covenants with a Consolidated Leverage Ratio of 3.22 to 1.00 and a Consolidated Interest Coverage Ratio of 24.20 to 1.00.

Borrowings outstanding under the Amended Credit Agreement at March 31, 2015 totaled \$283.8 million. These borrowings carried a weighted average interest rate of 2.5%, including the effect of the interest rate swaps described below in Note 9 Derivative Instruments and Hedging Activity. Borrowings outstanding under the Existing Credit Agreement at December 31, 2014 were \$143.8 million and carried a weighted average interest rate of 2.3%. The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At March 31, 2015, we had outstanding letters of credit totaling \$5.1 million, which are primarily used as security deposits for our office facilities. As of March 31, 2015, the unused borrowing capacity under the revolving credit facility was \$211.1 million.

All outstanding borrowings under the Amended Credit Agreement will be due upon expiration of the Amended Credit Agreement on March 31, 2020.

**8. Restructuring Charges**

During the first quarter of 2015, we incurred a \$1.6 million pretax restructuring charge primarily related to workforce reductions to better align our resources with market demand. Of the \$1.6 million charge, \$1.0 million related to our Huron Legal segment, \$0.5 million related to our All Other segment as we wind down our public sector consulting practice and our foreign consulting operations based in the Middle East, and the remaining \$0.1 million related to our corporate operations.

During the first quarter of 2014, we incurred a \$0.1 million pretax restructuring charge related to workforce reductions in our London office to better align our resources with market demand in our Huron Legal segment.

As of March 31, 2015, our restructuring charge liability was \$2.6 million, \$1.8 million of which represents the present value of remaining lease payments, net of estimated sublease income, for our vacated office spaces in Washington, D.C. and Chicago, and \$0.8 million of which represents the severance payments to be paid to those employees

impacted by the workforce reductions discussed above. The restructuring charge liability is included as a component of Accrued expenses and Deferred compensation and other liabilities.

### **9. Derivative Instruments and Hedging Activity**

On December 8, 2011, we entered into a forward amortizing interest rate swap agreement effective on February 29, 2012 and ending on April 14, 2016. We entered into this derivative instrument to hedge against the interest rate risks of our variable-rate borrowings described in Note 7 Financing Arrangements. The swap had an initial notional amount of \$56.6 million and amortizes throughout the term. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 0.9875%.

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

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On April 4, 2013, we entered into a forward amortizing interest rate swap agreement effective on March 31, 2014 and ending on August 31, 2017. We entered into this derivative instrument to further hedge against the interest rate risks of our variable-rate borrowings. The swap has an initial notional amount of \$60.0 million and amortizes throughout the term. Under the terms of the interest rate swap agreement, we will receive from the counterparty interest on the notional amount based on one-month LIBOR and we will pay to the counterparty a fixed rate of 0.985%.

ASC 815, *Derivatives and Hedging*, requires companies to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. In accordance with ASC 815, we have designated these derivative instruments as cash flow hedges. As such, changes in the fair value of the derivative instruments are recorded as a component of other comprehensive income ( OCI ) to the extent of effectiveness and reclassified into interest expense upon settlement. The ineffective portion of the change in fair value of the derivative instruments is recognized in interest expense. As of March 31, 2015, it was anticipated that \$0.4 million of the losses, net of tax, currently recorded in accumulated other comprehensive loss will be reclassified into earnings within the next 12 months. Our interest rate swap agreements were effective during the three months ended March 31, 2015, inclusive of consideration of our credit facility amendment discussed in Note 7 Financing Arrangements.

The table below sets forth additional information relating to these interest rate swaps designated as cash flow hedging instruments as of March 31, 2015 and December 31, 2014.

| <b>Balance Sheet Location</b>               | <b>Fair Value (Derivative Asset and Liability)</b> |                              |
|---|--|------------------------------|
|   | <b>March 31,<br/>2015</b>                          | <b>December 31,<br/>2014</b> |
| Other non-current assets                    | \$ 128   | \$ 516                       |
| Accrued expenses                            | \$ 605   | \$ 643                       |
| Deferred compensation and other liabilities | \$ 4   | \$ 10                        |

All of the Company's derivative instruments are transacted under the International Swaps and Derivatives Association (ISDA) master agreements. These agreements permit the net settlement of amounts owed in the event of default and certain other termination events. Although netting is permitted, it is the Company's policy to record all derivative assets and liabilities on a gross basis on the Consolidated Balance Sheets. All of the Company's derivative instruments as of March 31, 2015 and December 31, 2014 were held with the same counterparty.

We do not use derivative instruments for trading or other speculative purposes. Refer to Note 11 Other Comprehensive Loss for additional information on our derivative instruments.



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

|                |  |
|----------------|--|
| Level 1 Inputs | Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.   |
| Level 2 Inputs | Quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. |
| Level 3 Inputs | Unobservable inputs for the asset or liability, and include situations in which there is little, if any, market activity for the asset or liability.   |

The table below sets forth our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 and December 31, 2014.

|                             | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total            |
|-----------------------------|--|---|--|------------------|
| <b>March 31, 2015</b>       |  |   |  |                  |
| <b>Assets:</b>              |  |   |  |                  |
| Promissory note             | \$   | \$  | \$ 2,182   | \$ 2,182         |
| Convertible debt investment |  |   | 14,700   | 14,700           |
| <b>Total assets</b>         | <b>\$</b>  | <b>\$</b>   | <b>\$ 16,882</b>                                   | <b>\$ 16,882</b> |

**Liabilities:**



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|   |           |               |               |                 |
|---|-----------|---------------|---------------|-----------------|
| Interest rate swaps                               | \$        | \$ 481        | \$            | \$ 481          |
| Contingent consideration for business acquisition |           |               | 900           | 900             |
| <b>Total liabilities</b>                          | <b>\$</b> | <b>\$ 481</b> | <b>\$ 900</b> | <b>\$ 1,381</b> |

**December 31, 2014**

**Assets:**

|                             |           |               |                  |                  |
|-----------------------------|-----------|---------------|------------------|------------------|
| Promissory note             | \$        | \$            | \$ 2,137         | \$ 2,137         |
| Interest rate swaps         |           | 172           |                  | 172              |
| Convertible debt investment |           |               | 12,250           | 12,250           |
| <b>Total assets</b>         | <b>\$</b> | <b>\$ 172</b> | <b>\$ 14,387</b> | <b>\$ 14,559</b> |

**Liabilities:**

|   |           |               |               |               |
|---|-----------|---------------|---------------|---------------|
| Interest rate swaps                               | \$        | \$ 309        | \$            | \$ 309        |
| Contingent consideration for business acquisition |           |               | 226           | 226           |
| <b>Total liabilities</b>                          | <b>\$</b> | <b>\$ 309</b> | <b>\$ 226</b> | <b>\$ 535</b> |

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*Promissory note:* As part of the consideration received for the sale of our Accounting Advisory practice on December 30, 2011, the Company received a \$3.5 million promissory note payable over four years. During the second quarter of 2014, we agreed to amend and restate the note such that principal payments will be paid to the Company annually based on the amount of excess cash flows earned each year by the maker of the note until the maturity date of December 31, 2018, at which time the remaining principal balance and any accrued interest is due. The fair value of the note is based on the net present value of the projected cash flows using a discount rate of 17%, which accounts for the risks associated with the note. The increase in the fair value of the note during the first quarter of 2015 reflects the accretion of interest income in excess of interest payments received. The portion of the note expected to be received in the next twelve months is recorded as a receivable in Prepaid expenses and other current assets. The remaining portion of the note is recorded in Other non-current assets.

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

*Convertible debt investment:* In the third quarter of 2014, we invested \$12.5 million, in the form of zero coupon convertible debt, in Shorelight Holdings, LLC ( Shorelight ), the parent company of Shorelight Education, a U.S.-based company that partners with leading nonprofit universities to increase access and retention of international students, boost institutional growth, and enhance an institution's global footprint. In March 2015, we purchased an additional \$2.5 million convertible note of Shorelight, increasing the cost basis of our investment to \$15.0 million. The notes will mature on July 1, 2020, unless converted earlier.

To determine the appropriate accounting treatment for our investment, we performed a variable interest entity ( VIE ) analysis and concluded that Shorelight does not meet the definition of a VIE. We also reviewed the characteristics of our investment to confirm that the convertible notes are not in-substance common stock that would warrant equity method accounting. After we reviewed all of the terms of the investment, we concluded the appropriate accounting treatment to be that of an available-for-sale security in accordance with ASC 320, *Investments - Debt and Equity Securities*.

The investment is carried at fair value with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income. We estimated the fair value of our investment using cash flow projections discounted at a risk-adjusted rate and certain assumptions related to equity volatility, default probability, and recovery rate, all of which are Level 3 inputs. In arriving at the estimated fair value, we also considered the probability-weighted likelihood of conversion of the notes, in accordance with the various conversion features of the notes. An unrealized loss of \$0.1 million was recorded in Other comprehensive income for the three months ended March 31, 2015. As of March 31, 2015, we concluded that the unrealized loss was not other than temporary as we have the intent and ability to hold the investment for a period of time sufficient to recover the loss. The fair value of the convertible debt investment is recorded in Long-term investment.

*Contingent consideration for business acquisitions:* We estimate the fair value of acquisition-related contingent consideration using either a probability-weighted discounted cash flow model or a Monte Carlo simulation model, as appropriate. These fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 measurements. The significant unobservable inputs used in the fair value measurements of our contingent consideration are our measures of the estimated payouts based on internally generated financial projections and discount rates. The fair value of the contingent consideration is reassessed quarterly based on assumptions used in our latest projections and input provided by practice leaders and management. Any change in the fair value estimate is recorded in the earnings of that period. During the three months ended March 31, 2015, we recorded a \$0.9 million contingent consideration liability for one acquisition completed during the quarter. In addition, we determined that the fair value of another contingent consideration liability had declined to zero and recorded a remeasurement gain of \$0.3 million. Refer to Note 5 Acquisitions for information on the acquisitions completed in 2015. At March 31, 2015, the fair value of the contingent consideration liability is recorded in Deferred compensation and other liabilities.

Financial assets and liabilities not recorded at fair value are as follows:

***Senior secured credit facility***

The carrying value of borrowings outstanding under our senior secured credit facility is stated at cost. Our carrying value approximates fair value, using Level 2 inputs, as the senior secured credit facility bears interest at variable rates based on market rates as set forth in the Amended Credit Agreement. Refer to Note 7 Financing Arrangements.

**Table of Contents****HURON CONSULTING GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Tabular amounts in thousands, except per share amounts)****(Unaudited)*****Convertible Notes***

The carrying amount and estimated fair value of the Convertible Notes are as follows:

|   | <b>March 31, 2015</b>      |                                     | <b>December 31, 2014</b>   |                                     |
|---|----------------------------|-------------------------------------|----------------------------|-------------------------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair<br/>Value</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair<br/>Value</b> |
| 1.25% convertible senior notes due 2019 | \$ 214,606                 | \$ 275,745                          | \$ 212,852                 | \$ 261,903                          |

The difference between the \$250 million principal amount of the Convertible Notes and the carrying amount represents the unamortized debt discount. As of March 31, 2015 and December 31, 2014, the carrying value of the equity component of \$39.3 million was unchanged from the date of issuance. Refer to Note 7 Financing Arrangements for additional details of our Convertible Notes. The estimated fair value of the Convertible Notes was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market, which is a Level 2 input, on March 31, 2015 and December 31, 2014.

Based on the closing price of our common stock of \$66.15 on March 31, 2015, the if-converted value of the Convertible Notes was less than the principal amount.

Cash and cash equivalents are stated at cost, which approximates fair market value. The carrying values for receivables from clients, unbilled services, accounts payable, deferred revenues and other accrued liabilities reasonably approximate fair market value due to the nature of the financial instrument and the short-term maturity of these items.

We hold our cash in accounts at multiple third-party financial institutions. These deposits, at times, may exceed federally insured limits. We review the credit ratings of these financial institutions, regularly monitor the cash balances in these accounts, and adjust the balances as appropriate. However, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets.

**11. Other Comprehensive Loss**

The tables below set forth the components of other comprehensive loss, net of tax, for the three months ended March 31, 2015 and 2014.

|  | Three Months Ended<br>March 31, 2015 |                             |                 | Three Months Ended<br>March 31, 2014 |                             |                 |
|--|--------------------------------------|-----------------------------|-----------------|--------------------------------------|-----------------------------|-----------------|
|  | Before<br>Taxes                      | Tax<br>(Expense)<br>Benefit | Net of<br>Taxes | Before<br>Taxes                      | Tax<br>(Expense)<br>Benefit | Net of<br>Taxes |
| Other comprehensive loss:                  |                                      |                             |                 |                                      |                             |                 |
| Foreign currency translation adjustment    | \$ (444)                             | \$ 8                        | \$ (436)        | \$ (106)                             | \$                          | \$ (106)        |
| Unrealized loss on investment              | \$ (50)                              | \$                          | \$ (50)         | \$                                   | \$                          | \$              |
| Unrealized loss on cash flow hedges:       |                                      |                             |                 |                                      |                             |                 |
| Change in fair value                       | \$ (561)                             | \$ 222                      | \$ (339)        | \$ (171)                             | \$ 69                       | \$ (102)        |
| Reclassification adjustments into earnings | 217                                  | (87)                        | 130             | 130                                  | (52)                        | 78              |
| Net unrealized loss                        | \$ (344)                             | \$ 135                      | \$ (209)        | \$ (41)                              | \$ 17                       | \$ (24)         |
| Other comprehensive loss                   | \$ (838)                             | \$ 143                      | \$ (695)        | \$ (147)                             | \$ 17                       | \$ (130)        |

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

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

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

|                            | <b>Foreign Currency<br/>Translation<br/>Adjustments</b> | <b>Net Unrealized<br/>Loss on<br/>Investment</b> | <b>Net Unrealized<br/>Loss on<br/>Derivatives</b> | <b>Accumulated Other<br/>Comprehensive Loss</b> |
|----------------------------|---|--|---|---|
| Balance, December 31, 2014 | \$ (2,334)  | \$ (250)   | \$ (71)   | \$ (2,655)                                      |
| Current period change      | (436)   | (50)   | (209)   | (695)   |
| Balance, March 31, 2015    | \$ (2,770)  | \$ (300)   | \$ (280)  | \$ (3,350)                                      |

**12. Income Taxes**

The Company's effective tax rates for the three months ended March 31, 2015 and 2014 were 58.8% and 16.0%, respectively. The effective tax rate for the first quarter of 2015 was higher than the statutory rate, inclusive of state income taxes, primarily due to foreign losses with no tax benefit and certain non-deductible expenses as a percentage of pretax income. The effective tax rate for the first three months of 2014 was lower than the statutory tax rate, inclusive of state income taxes, primarily due to the impact of a tax election made in the first quarter of 2014 to classify one of our wholly-owned foreign subsidiaries as a disregarded entity for U.S. federal income tax purposes (commonly referred to as a "check-the-box" election). As a result of this election, we expect to realize an income tax benefit of \$13.8 million, of which \$2.4 million is unrecognized, resulting in a net recognized tax benefit of \$11.4 million. This recognized benefit was partially offset by \$1.2 million in expenses in the first quarter of 2014 related to the establishment of a valuation allowance for certain foreign tax credits and increased deferred tax liabilities as a result of the aforementioned election.

**13. Commitments, Contingencies and Guarantees****Litigation***Tamalluk Business Development LLC v. Huron Consulting Services LLC (Abu Dhabi Court of First Instance)*

On August 22, 2013, we learned that Tamalluk Business Development LLC, who was Huron's agent in Abu Dhabi, and its principal, Mubarak Ahmad Bin Hamouda Al Dhaheri, filed a claim against Huron Consulting Services LLC in the Abu Dhabi Court of First Instance. The lawsuit alleges that under the agency agreement, Tamalluk was entitled to

a commission on certain amounts that Huron collected from Abu Dhabi clients, and that Huron breached the agreement with Tamalluk and caused damages by declining to enter into a client engagement in Abu Dhabi and subsequently terminating the agency agreement with Tamalluk. Claimants allege they are entitled to \$50 million for damage to reputation and defamation and another \$50 million for breach of contract. Huron submitted its written response on September 25, 2013. The response states that Huron had the right to terminate the agency agreement with Tamalluk, and Huron had the sole discretion whether to accept or reject an engagement. Huron also filed a counterclaim on October 10, 2013 seeking a judicial order to permit the cancellation of Huron's commercial license to allow Huron to cease doing business in Abu Dhabi. On December 17, 2013, the Abu Dhabi court ruled in Huron's favor on all claims and held that Huron permissibly terminated the contract with Tamalluk and Huron does not owe Tamalluk any compensation related to Tamalluk's claims. In addition, the court terminated the Local Sponsorship Agreement as requested by Huron in its counterclaim. Tamalluk appealed the decision, and on March 18, 2014, the appellate court upheld the decision in Huron's favor. Tamalluk filed an appeal on May 18, 2014 to the Court of Cassation, which is the highest court in Abu Dhabi. On October 21, 2014, the Court of Cassation referred the case back to the appellate court for consideration of Claimants' allegations relating to damage to reputation and defamation, which the appellate court had not previously addressed. The Court of Cassation ruled in Huron's favor on the other claims and on Huron's counterclaim. We continue to believe that the remaining claims are without merit and intend to vigorously defend ourselves in this matter.

#### *Physiotherapy Associates*

In 2011, Huron was engaged to design and implement new processes, software, tools, and techniques to assist Physiotherapy Associates, Inc. ( PA ) in reducing older accounts receivable levels and optimizing cash flow. The engagement agreement specifically provides that Huron will not be auditing financial statements and that Huron's services are not designed, and should not be relied on, to disclose weaknesses in internal controls, financial statement errors, irregularities, illegal acts, or disclosure deficiencies.

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Tabular amounts in thousands, except per share amounts)**

**(Unaudited)**

In November 2013, Physiotherapy Holdings, Inc., and certain subsidiaries and affiliates (including PA) filed a voluntary petition for bankruptcy pursuant to Chapter 11 of the Bankruptcy Code, which resulted in part from claims related to an alleged overstatement of PA's revenues and profitability in connection with the sale of PA in 2012. The Joint Prepackaged Plan of Reorganization (the Plan), which was confirmed by the Bankruptcy Court in December 2013, establishes and funds a Litigation Trust to pursue certain claims on behalf of certain beneficiaries. The Plan discloses a lengthy list of potential defendants and witnesses regarding these claims, including but not limited to the debtors' officers, directors, certain employees, former owners, investment bankers, auditors, and various consultants. This list of potential defendants and witnesses includes Huron, as well as three of Huron's current or former employees.

The Plan suggests that Huron, among others, was involved in actively marketing PA for sale and provided opinions to unnamed parties defending the quality of PA's earnings. The Plan further states that the damages to be sought by the Litigation Trust will exceed \$300 million. The Litigation Trust has not specified against which potential defendants it will bring claims, if any. We believe the Litigation Trust's allegations with respect to Huron are without merit and will vigorously defend ourselves should any claim arising out of these alleged facts and circumstances be asserted against us by the Litigation Trust.

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

**Guarantees and Indemnification**

Guarantees in the form of letters of credit totaling \$5.1 million were outstanding at both March 31, 2015 and December 31, 2014 to support certain office lease obligations as well as Middle East performance and bid bonds.

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

**14. Segment Information**

Segments are defined by ASC 280, *Segment Reporting*, as components of a company that engage in business activities from which they may earn revenues and incur expenses, and for 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. Our chief operating decision maker manages the business under five operating segments, which are our reportable segments: Huron Healthcare, Huron Legal, Huron Education and Life Sciences, Huron Business Advisory, and All Other.

### **Huron Healthcare**

Our Huron Healthcare segment provides consulting services to national and regional hospitals and integrated health systems, academic medical centers, community hospitals, and physician practices. We deliver solutions to enhance the ability of our clients to address challenges in the rapidly-evolving healthcare environment and to improve quality, increase revenue, reduce expenses, and enhance patient, physician, and employee satisfaction across the healthcare enterprise. By partnering with healthcare organizations, we design solutions that teach providers how to achieve cultural transformation and deliver and sustain improvement in clinical outcomes and financial results. Our people provide a depth of expertise across the healthcare industry, and our culture of collaboration extends to our client engagements, enabling teams to effectively implement successful client projects.

### **Huron Legal**

Our Huron Legal segment provides consulting and technology-enabled services to assist law departments of major global corporations and their associated law firms with cost and risk reduction and operational efficiency. Our professionals and business solutions focus on four primary areas: electronic discovery and litigation management, law department management, information governance and compliance, and legal analytics. Our clients benefit from the experience of business, discovery, and technical consultants who are experts in the legal, compliance, technology, and management fields.

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Tabular amounts in thousands, except per share amounts)**

**(Unaudited)**

**Huron Education and Life Sciences**

Our Huron Education and Life Sciences segment provides management consulting services and software solutions to the higher education, academic medical center, pharmaceutical and medical device, and research industries. We work with our clients to develop and implement performance improvement, technology, and research enterprise solutions to help them address challenges relating to financial management, strategy, operational and organizational effectiveness, research administration, and regulatory compliance.

**Huron Business Advisory**

Our Huron Business Advisory segment provides services to the C-suite of middle market and large organizations, lending institutions, law firms, investment banks, and private equity firms. We assist clients in a broad range of industries and across the spectrum from healthy, well-capitalized companies to organizations in transition, creditors, owners, and other key constituents. Also included in the Huron Business Advisory segment is our Enterprise Performance Management and Analytics practice, which delivers solutions that enable organizations to manage and optimize their financial performance, operational efficiency, and client experience. With expertise in full-service enterprise performance management (EPM), business analytics, customer relationship management (CRM), and big data professional services, Huron helps global clients across industries drive results and gain a competitive advantage.

**All Other**

Our All Other segment consists of any line of business not managed by our other four operating segments. These businesses include our public sector consulting practice and our foreign consulting operations based in the Middle East, which we are in the process of winding down.

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

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

The table below sets forth information about our operating segments for the three months ended March 31, 2015 and 2014, along with the items necessary to reconcile the segment information to the totals reported in the accompanying Consolidated Financial Statements.

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2015</b>                             | <b>2014</b> |
| <b>Huron Healthcare:</b>                                     |   |             |
| Revenues   | \$ 98,004                               | \$ 107,548  |
| Operating income   | \$ 28,980                               | \$ 51,220   |
| Segment operating income as a percentage of segment revenues | 29.6%                                   | 47.6%       |
| <b>Huron Legal:</b>  |   |             |
| Revenues   | \$ 33,427                               | \$ 54,975   |
| Operating income   | \$ 3,592                                | \$ 12,488   |
| Segment operating income as a percentage of segment revenues | 10.7%                                   | 22.7%       |
| <b>Huron Education and Life Sciences:</b>                    |   |             |
| Revenues   | \$ 39,897                               | \$ 33,576   |
| Operating income   | \$ 11,780                               | \$ 6,447    |
| Segment operating income as a percentage of segment revenues | 29.5%                                   | 19.2%       |
| <b>Huron Business Advisory:</b>                              |   |             |
| Revenues   | \$ 15,738                               | \$ 13,382   |
| Operating income   | \$ 1,599                                | \$ 2,555    |
| Segment operating income as a percentage of segment revenues | 10.2%                                   | 19.1%       |
| <b>All Other:</b>  |   |             |
| Revenues   | \$ 787                                  | \$ 1,250    |
| Operating loss   | \$ (992)                                | \$ (458)    |
| Segment operating loss as a percentage of segment revenues   | N/M                                     | N/M         |
| <b>Total Company:</b>  |   |             |
| Revenues   | \$ 187,853                              | \$ 210,731  |
| Reimbursable expenses  | 17,155                                  | 19,103      |

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|  |            |            |
|--|------------|------------|
| Total revenues and reimbursable expenses | \$ 205,008 | \$ 229,834 |
|--|------------|------------|

**Statements of Earnings reconciliation:**

|                          |           |           |
|--------------------------|-----------|-----------|
| Segment operating income | \$ 44,959 | \$ 72,252 |
|--------------------------|-----------|-----------|

Items not allocated at the segment level:

|                                    |        |        |
|------------------------------------|--------|--------|
| Other operating expenses and gains | 28,414 | 24,377 |
|------------------------------------|--------|--------|

|                                       |       |       |
|---------------------------------------|-------|-------|
| Depreciation and amortization expense | 7,777 | 6,056 |
|---------------------------------------|-------|-------|

|                    |       |       |
|--------------------|-------|-------|
| Other expense, net | 5,121 | 1,195 |
|--------------------|-------|-------|

|                                  |          |           |
|----------------------------------|----------|-----------|
| Income before income tax expense | \$ 3,647 | \$ 40,624 |
|----------------------------------|----------|-----------|

N/M Not Meaningful

At March 31, 2015 and December 31, 2014, no single client accounted for greater than 10% of our combined receivables and unbilled services balances. No single client generated greater than 10% of our consolidated revenues during the three months ended March 31, 2015 and 2014.

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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 subsidiaries.

Statements in this Quarterly Report on Form 10-Q that are not historical in nature, including those concerning the Company's current expectations about its future requirements and needs, are forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by words such as "may," "should," "expects," "provides," "anticipates," "assumes," "can," "will," "meets," "could," "likely," "intends," "might," "predicts," "seeks," "estimates," "plans" or "continues." These forward-looking statements reflect our current expectation about our future requirements and needs, results, levels of activity, performance, or achievements. Some of the factors that could cause actual results to differ materially from the forward-looking statements contained herein include, without limitation: failure to achieve expected utilization rates, billing rates, and the number of revenue-generating professionals; inability to expand or adjust our service offerings in response to market demands; our dependence on renewal of client-based services; dependence on new business and retention of current clients and qualified personnel; failure to maintain third-party provider relationships and strategic alliances; inability to license technology to and from third parties; the impairment of goodwill; various factors related to income and other taxes; difficulties in successfully integrating the businesses we acquire and achieving expected benefits from such acquisitions; risks relating to privacy, information security, and related laws and standards; and a general downturn in market conditions. These forward-looking statements involve known and unknown risks, uncertainties and other factors, including, among others, those described under "Item 1A. Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2014 that may cause actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We disclaim any obligation to update or revise any forward-looking statements as a result of new information or future events, or for any other reason.

**OVERVIEW**

**Our Business**

We are a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, transform the enterprise, reduce costs, leverage technology, process and review large amounts of complex data, address regulatory changes, recover from distress, and stimulate growth. Our professionals employ their expertise in finance, operations, strategy, analytics, and technology to provide our clients with specialized analyses and customized advice and solutions that are tailored to address each client's particular challenges and opportunities to deliver sustainable and measurable results. We provide consulting services to a wide variety of both financially sound and distressed organizations, including healthcare organizations, leading academic institutions, Fortune 500 companies, governmental entities, and law firms. We have worked with more than 450 health systems, hospitals, and academic medical centers; more than 400 corporate general counsel; and more than 400 universities and research institutions. We are a Platinum level member of the Oracle PartnerNetwork (OPN), a Workday Services Partner, and a Silver Partner of the Salesforce.com partner network.

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

### **Huron Healthcare**

Our Huron Healthcare segment provides consulting services to national and regional hospitals and integrated health systems, academic medical centers, community hospitals, and physician practices. We deliver solutions to enhance the ability of our clients to address challenges in the rapidly-evolving healthcare environment and to improve quality, increase revenue, reduce expenses, and enhance patient, physician, and employee satisfaction across the healthcare enterprise. By partnering with healthcare organizations, we design solutions that teach providers how to achieve cultural transformation and deliver and sustain improvement in clinical outcomes and financial results. Our people provide a depth of expertise across the healthcare industry, and our culture of collaboration extends to our client engagements, enabling teams to effectively implement successful client projects.

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### **Huron Education and Life Sciences**

Our Huron Education and Life Sciences segment provides management consulting services and software solutions to the higher education, academic medical center, pharmaceutical and medical device, and research industries. We work with our clients to develop and implement performance improvement, technology, and research enterprise solutions to help them address challenges relating to financial management, strategy, operational and organizational effectiveness, research administration, and regulatory compliance.

### **Huron Business Advisory**

Our Huron Business Advisory segment provides services to the C-suite of middle market and large organizations, lending institutions, law firms, investment banks, and private equity firms. We assist clients in a broad range of industries and across the spectrum from healthy, well-capitalized companies to organizations in transition, creditors, owners, and other key constituents. Also included in the Huron Business Advisory segment is our Enterprise Performance Management and Analytics practice, which delivers solutions that enable organizations to manage and optimize their financial performance, operational efficiency, and client experience. With expertise in full-service enterprise performance management (EPM), business analytics, customer relationship management (CRM), and big data professional services, Huron helps global clients across industries drive results and gain a competitive advantage.

### **All Other**

Our All Other segment consists of any line of business not managed by our other four operating segments. These businesses include our public sector consulting practice and our foreign consulting operations based in the Middle East, which we are in the process of winding down.

## **Acquisitions**

### ***Studer Group***

On February 12, 2015, we completed our acquisition of Studer Group in exchange for consideration with a fair value of approximately \$325.5 million, consisting of \$323.0 million in cash, \$2.2 million in Huron common stock, and a preliminary accrued net working capital adjustment of \$0.3 million. The cash portion of the acquisition was funded with available cash on hand and \$102.0 million of borrowings under our senior secured credit facility. Studer Group is a premier professional services firm that assists healthcare providers achieve cultural transformation to deliver and sustain improvement in clinical outcomes and financial results. The acquisition combines our Huron Healthcare segment's performance improvement and clinical transformation capabilities with Studer Group's Evidence-Based Leadership<sup>SM</sup> framework to provide leadership and cultural transformation expertise for healthcare provider clients. Studer Group's results of operations have been included in our consolidated financial statements and the segment operating results of Huron Healthcare from the date of acquisition.

### ***Sky Analytics***

Effective January 1, 2015, we completed our acquisition of Sky Analytics in exchange for consideration with a fair value of approximately \$9.7 million. This included cash of \$8.8 million and contingent consideration with a fair value of \$0.9 million at the acquisition date. Sky Analytics, Inc. is a Massachusetts-based provider of legal spend management software for corporate law departments. The addition strengthens our Huron Legal segment's law department management offering and complements our deep consulting expertise. Sky Analytics' results of operations

have been included in our consolidated financial statements and the segment operating results of Huron Legal from the date of acquisition.

### **How We Generate Revenues**

A large portion of our revenues is generated by our full-time consultants who provide consulting services to our clients and are billable to our clients based on the number of hours worked. A smaller portion of our revenues is generated by our other professionals, also referred to as full-time equivalents, all of whom work variable schedules as needed by our clients. Other professionals include specialized finance and operational consultants, our document review and electronic data discovery groups, our cultural transformation consultants from the Studer Group acquisition, which include coaches and their support staff, and our full-time employees who provide software support and maintenance services to our clients. Our document review and electronic



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data discovery groups generate revenues primarily based on the number of hours worked and units produced, such as pages reviewed or amount of data processed. We translate the hours that these other professionals work on client engagements into a full-time equivalent measure that we use to manage our business. We refer to our full-time consultants and other professionals collectively as revenue-generating professionals.

Revenues generated by our full-time consultants are primarily driven by the number of consultants we employ and their utilization rates, as well as the billing rates we charge our clients. Revenues generated by our other professionals, or full-time equivalents, are largely dependent on the number of consultants we employ, their hours worked, and billing rates charged, as well as the number of pages reviewed and amount of data processed in the case of our document review and electronic data discovery groups, respectively. Revenues generated by our coaches are largely dependent on the number of coaches we employ and the total value, scope, and terms of the consulting contracts under which they provide services, which are primarily fixed-fee contracts.

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

Time-and-expense billing arrangements require the client to pay based on either the number of hours worked, the number of pages reviewed, or the amount of data processed by our revenue-generating professionals at agreed upon rates. We recognize revenues under time-and-expense billing arrangements as the related services are rendered. Time-and-expense engagements represented 42.5% and 43.4% of our revenues for the three months ended March 31, 2015 and 2014, respectively.

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

Fixed fee arrangements also include our software license and subscription revenue, which is primarily derived from revenue cycle management software, research administration and compliance software, and subscriptions to our cloud-based analytic tools and solutions. Licenses for our revenue cycle management software are sold only as a component of our consulting projects, and the services we provide are essential to the functionality of the software. Therefore, revenues from these software licenses are recognized over the term of the related consulting services contract. License revenue from our research administration and compliance software is generally recognized in the month in which the software is delivered. Subscription revenue from our cloud based solutions is recognized on a straight-line basis over the term of the customer contract.

Fixed-fee engagements (including software license and subscription revenue) represented 46.1% and 38.4% of our revenues for the three months ended March 31, 2015 and 2014.

In performance-based fee billing arrangements, fees are tied to the attainment of contractually defined objectives. We enter into performance-based engagements in essentially two forms. First, we generally earn fees that are directly related to the savings formally acknowledged by the client as a result of adopting our recommendations for improving operational and cost effectiveness in the areas we review. Second, we have performance-based engagements in which we earn a success fee when and if certain pre-defined outcomes occur. Often, performance-based fees supplement our time-and-expense or fixed-fee engagements. We do not recognize revenues under performance-based billing

arrangements until all related performance criteria are met. Performance-based fee revenues represented 7.1% and 15.2% of our revenues for the three months ended March 31, 2015 and 2014, respectively. Performance-based fee engagements may cause significant variations in quarterly revenues and operating results depending on the timing of achieving the performance-based criteria.

Clients who have purchased one of our software licenses can pay an additional fee for software support and maintenance. The software support and maintenance fee revenue is recognized ratably over the support period, which is generally one year. These fees are billed in advance and included in deferred revenues until recognized. Support and maintenance revenues represented 4.3% and 3.0% of our revenues for the three months ended March 31, 2015 and 2014, respectively.

Our quarterly results are impacted principally by our full-time consultants' utilization rate, the billing rate we charge our clients, the number of our revenue-generating professionals who are available to work, and the amount of performance-based fees recognized, which often vary significantly between quarters. Our utilization rate can be negatively affected by increased hiring because there is generally a transition period for new professionals that results in a temporary drop in our utilization rate. Our utilization rate can also be affected by seasonal variations in the demand for our services from our clients. For example, during the

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third and fourth quarters of the year, vacations taken by our clients can result in the deferral of activity on existing and new engagements, which would negatively affect our utilization rate. The number of business work days is also affected by the number of vacation days taken by our consultants and holidays in each quarter. We typically have fewer business work days available in the fourth quarter of the year, which can impact revenues during that period.

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

## **Business Strategy, Opportunities and Challenges**

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

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

**Table of Contents****RESULTS OF OPERATIONS**

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

|   | <b>Three Months Ended<br/>March 31,</b> |                   |
|---|---|-------------------|
|   | <b>2015</b>                             | <b>2014</b>       |
| <b><u>Segment and Consolidated Operating Results (in thousands):</u></b>        |   |                   |
| <b>Revenues and reimbursable expenses:</b>                                      |   |                   |
| Huron Healthcare  | \$ 98,004                               | \$ 107,548        |
| Huron Legal   | 33,427                                  | 54,975            |
| Huron Education and Life Sciences   | 39,897                                  | 33,576            |
| Huron Business Advisory   | 15,738                                  | 13,382            |
| All Other   | 787                                     | 1,250             |
| <br>  |   |                   |
| Total revenues  | 187,853                                 | 210,731           |
| Total reimbursable expenses   | 17,155                                  | 19,103            |
| <br>  |   |                   |
| <b>Total revenues and reimbursable expenses</b>                                 | <b>\$ 205,008</b>                       | <b>\$ 229,834</b> |
| <br>  |   |                   |
| <b>Operating income (loss):</b>   |   |                   |
| Huron Healthcare  | \$ 28,980                               | \$ 51,220         |
| Huron Legal   | 3,592                                   | 12,488            |
| Huron Education and Life Sciences   | 11,780                                  | 6,447             |
| Huron Business Advisory   | 1,599                                   | 2,555             |
| All Other   | (992)                                   | (458)             |
| <br>  |   |                   |
| Total segment operating income  | 44,959                                  | 72,252            |
| Operating expenses and other gain not allocated to segments                     | 36,191                                  | 30,433            |
| <br>  |   |                   |
| <b>Total operating income</b>   | <b>\$ 8,768</b>                         | <b>\$ 41,819</b>  |
| <br>  |   |                   |
| <b><u>Other Operating Data (excluding All Other):</u></b>                       |   |                   |
| <b>Number of full-time billable consultants (at period end) <sup>(1)</sup>:</b> |   |                   |
| Huron Healthcare  | 1,105                                   | 995               |
| Huron Legal   | 107                                     | 138               |
| Huron Education and Life Sciences   | 425                                     | 429               |
| Huron Business Advisory   | 211                                     | 166               |
| <br>  |   |                   |
| Total   | 1,848                                   | 1,728             |

| <b>Average number of full-time billable consultants (for the period) (1):</b> |       |       |
|---|-------|-------|
| Huron Healthcare  | 1,108 | 985   |
| Huron Legal   | 116   | 139   |
| Huron Education and Life Sciences   | 423   | 434   |
| Huron Business Advisory   | 205   | 161   |
| Total   | 1,852 | 1,719 |
| <b>Full-time billable consultant utilization rate (2):</b>                    |       |       |
| Huron Healthcare  | 72.5% | 78.9% |
| Huron Legal   | 52.7% | 64.5% |
| Huron Education and Life Sciences   | 76.4% | 68.3% |
| Huron Business Advisory   | 69.5% | 68.5% |
| Total   | 71.8% | 74.1% |

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|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2015</b>                             | <b>2014</b> |
| <b><u>Other Operating Data (continued):</u></b>                                    |   |             |
| <b>Full-time billable consultant average billing rate per hour <sup>(3)</sup>:</b> |   |             |
| Huron Healthcare   | \$ 211                                  | \$ 272      |
| Huron Legal <sup>(5)</sup>   | \$ 249                                  | \$ 231      |
| Huron Education and Life Sciences  | \$ 225                                  | \$ 200      |
| Huron Business Advisory  | \$ 227                                  | \$ 238      |
| Total <sup>(5)</sup>   | \$ 218                                  | \$ 249      |
| <b>Revenue per full-time billable consultant (in thousands):</b>                   |   |             |
| Huron Healthcare   | \$ 72                                   | \$ 102      |
| Huron Legal <sup>(5)</sup>   | \$ 60                                   | \$ 67       |
| Huron Education and Life Sciences  | \$ 81                                   | \$ 65       |
| Huron Business Advisory  | \$ 74                                   | \$ 79       |
| Total <sup>(5)</sup>   | \$ 73                                   | \$ 88       |
| <b>Average number of full-time equivalents (for the period) <sup>(4)</sup>:</b>    |   |             |
| Huron Healthcare   | 127                                     | 51          |
| Huron Legal  | 816                                     | 1,413       |
| Huron Education and Life Sciences  | 38                                      | 39          |
| Huron Business Advisory  | 5                                       | 8           |
| Total  | 986                                     | 1,511       |
| <b>Revenue per full-time equivalents (in thousands):</b>                           |   |             |
| Huron Healthcare   | \$ 145                                  | \$ 129      |
| Huron Legal <sup>(5)</sup>   | \$ 32                                   | \$ 32       |
| Huron Education and Life Sciences  | \$ 149                                  | \$ 139      |
| Huron Business Advisory  | \$ 89                                   | \$ 84       |
| Total <sup>(5)</sup>   | \$ 52                                   | \$ 38       |

- (1) Consists of our full-time professionals who provide consulting services and generate revenues based on the number of hours worked.
- (2) Utilization rate for our full-time billable consultants is calculated by dividing the number of hours all of our full-time billable consultants worked on client assignments during a period by the total available working hours for all of these consultants during the same period, assuming a forty-hour work week, less paid holidays and vacation days.
- (3) Average billing rate per hour for our full-time billable consultants is calculated by dividing revenues for a period by the number of hours worked on client assignments during the same period.
- (4) Consists of consultants who work variable schedules as needed by our clients, as well as other professionals who generate revenues primarily based on number of hours worked and units produced, such as pages reviewed and data processed. Also includes our cultural transformation consultants from the Studer Group acquisition, which include coaches and their support staff, and full-time employees who provide software support and maintenance services to our clients.
- (5) During the second quarter of 2014, we revised the methodology we use to allocate revenue between our billable consultants and our full-time equivalents in our Huron Legal segment to better reflect the nature of the work being provided. Operating data for the three months ended March 31, 2015 and 2014, as presented above, reflects this change.



**Table of Contents****Non-GAAP Measures**

We also assess our results of operations using certain non-GAAP financial measures. These non-GAAP financial measures differ from GAAP because the non-GAAP financial measures we calculate to measure Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA), Adjusted net income, and Adjusted diluted earnings per share exclude a number of items required by GAAP, each discussed below. These non-GAAP financial measures should be considered in addition to, and not as a substitute for or superior to, any measure of performance, cash flows, or liquidity prepared in accordance with GAAP. Our non-GAAP financial measures may be defined differently from time to time and may be defined differently than similar terms used by other companies, and accordingly, care should be exercised in understanding how we define our non-GAAP financial measures.

Our management uses the non-GAAP financial measures to gain an understanding of our comparative operating performance, for example when comparing such results with previous periods or forecasts. These non-GAAP financial measures are used by management in their financial and operating decision making because management believes they reflect our ongoing business in a manner that allows for meaningful period-to-period comparisons. Management also uses these non-GAAP financial measures when publicly providing our business outlook, for internal management purposes, and as a basis for evaluating potential acquisitions and dispositions. We believe that these non-GAAP financial measures provide useful information to investors and others in understanding and evaluating Huron's current operating performance and future prospects in the same manner as management does and in comparing in a consistent manner Huron's current financial results with Huron's past financial results.

The reconciliations of these financial measures from GAAP to non-GAAP are as follows (in thousands):

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2015</b>               | <b>2014</b> |
| <b>Revenues</b>  | \$ 187,853                | \$ 210,731  |
| Net income   | \$ 1,502                  | \$ 34,126   |
| Add back:  |                           |             |
| Income tax expense   | 2,145                     | 6,498       |
| Interest and other expenses  | 5,121                     | 1,195       |
| Depreciation and amortization  | 10,289                    | 7,157       |
| <b>Earnings before interest, taxes, depreciation and amortization (EBITDA)</b> | 19,057                    | 48,976      |
| Add back:  |                           |             |
| Restructuring charges  | 1,590                     | 129         |
| Other gain   | (226)                     |             |
| <b>Adjusted EBITDA</b>   | \$ 20,421                 | \$ 49,105   |
| <b>Adjusted EBITDA as a percentage of revenues</b>                             | 10.9%                     | 23.3%       |



|   | <b>Three Months Ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          |                  |
|   | <b>2015</b>               | <b>2014</b>      |
| <b>Net income</b>                                 | \$ 1,502                  | \$ 34,126        |
| <b>Weighted average shares diluted</b>            | 22,602                    | 23,086           |
| <b>Diluted earnings per share</b>                 | \$ 0.07                   | \$ 1.48          |
| Add back:   |                           |                  |
| Amortization of intangible assets                 | 5,082                     | 2,518            |
| Restructuring charges                             | 1,590                     | 129              |
| Other gain  | (226)                     |                  |
| Non-cash interest on convertible notes            | 1,754                     |                  |
| Tax effect  | (3,223)                   | (1,059)          |
| Net tax benefit related to check-the-box election |                           | (10,244)         |
| <b>Total adjustments, net of tax</b>              | <b>4,977</b>              | <b>(8,656)</b>   |
| <b>Adjusted net income</b>                        | <b>\$ 6,479</b>           | <b>\$ 25,470</b> |
| <b>Adjusted diluted earnings per share</b>        | <b>\$ 0.29</b>            | <b>\$ 1.10</b>   |

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These non-GAAP financial measures include adjustments for the following items:

*Restructuring charges:* We have incurred charges due to the restructuring of various parts of our business. These restructuring charges have primarily consisted of costs associated with office space consolidations, including the accelerated depreciation of certain leasehold improvements, and severance charges. We have excluded the effect of the restructuring charges from our non-GAAP measures because the amount of each restructuring charge is significantly affected by the timing and size of the restructured business or component of a business.

*Other gain:* We have excluded the effect of the remeasurement gain recorded in the first quarter of 2015 related to a reduction in a contingent consideration liability for a business acquisition to permit comparability with the prior year period that was not impacted by this item.

*Amortization of intangible assets:* We have excluded the effect of amortization of intangible assets from the calculation of Adjusted net income presented above. Amortization of intangibles is inconsistent in its amount and frequency and is significantly affected by the timing and size of our acquisitions.

*Non-cash interest on convertible notes:* We incur non-cash interest expense relating to the implied value of the equity conversion component of our Convertible Notes. The value of the equity conversion component is treated as a debt discount and amortized to interest expense over the life of the Convertible Notes using the effective interest rate method. We exclude this non-cash interest expense that does not represent cash interest payments made to our note holders from the calculation of Adjusted net income.

*Tax effect:* The non-GAAP income tax adjustment reflects the incremental tax rate applicable to the non-GAAP adjustments.

*Net tax benefit related to check-the-box election:* We have excluded the effect of the net tax benefit from our check-the-box election to treat one of our wholly-owned foreign subsidiaries as a disregarded entity for U.S. federal income tax purposes during the first quarter of 2014 because its exclusion permits comparability with periods that were not impacted by this item.

*Income tax expense, Interest and other expenses, Depreciation and amortization:* We have excluded the effects of income tax expense, interest and other expenses, and depreciation and amortization in the calculation of EBITDA as these are customary exclusions as defined by the calculation of EBITDA to arrive at meaningful earnings from core operations excluding the effect of such items.

## **Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014**

### **Revenues**

Revenues decreased \$22.9 million, or 10.9%, to \$187.9 million for the first quarter of 2015 from \$210.7 million for the first quarter of 2014. First quarter 2015 revenues include \$19.7 million from businesses acquired subsequent to the first quarter of 2014. Revenues in the first quarter of 2015 were negatively impacted by \$0.4 million related to the fair value adjustment of deferred revenue acquired in the Studer Group acquisition. We expect to incur a similar \$0.4 million negative impact during the second quarter of 2015 related to this adjustment.

Of the overall \$22.9 million decrease in revenues, \$15.2 million was attributable to a decrease in revenue from our full-time billable consultants and \$7.7 million was attributable to our full-time equivalents. The decrease in full-time billable consultant revenues was driven by decreases in the average billing rate and consultant utilization rate, partially

offset by an increase in the average number of billable consultants. As discussed below in Segment Results, the decrease in revenue from full-time billable consultants primarily reflected lower contingent fees and project timing as we transition between engagements in our Huron Healthcare segment and decreased demand for our services in our Huron Legal segment, partially offset by strengthened demand for our services in the Huron Education and Life Sciences and Huron Business Advisory segments. The decline in revenue attributable to full-time equivalents primarily reflected a decrease in demand for our discovery services in the Huron Legal segment, partially offset by the revenue generated by our healthcare coaches in the Huron Healthcare segment, which was the result of our acquisition of Studer Group during the first quarter of 2015.

### **Total Direct Costs**

Our total direct costs increased \$2.8 million, or 2.2%, to \$127.5 million in the three months ended March 31, 2015, from \$124.7 million in the three months ended March 31, 2014. The increase primarily related to an \$8.4 million increase in salaries and related expenses for our revenue-generating professionals, a \$1.4 million increase in intangible asset amortization expense, and a \$0.8 million increase in bonus expense for our revenue-generating professionals, partially offset by a \$7.3 million decrease in contractor expense. As a percentage of revenues, our total direct costs increased to 67.9% during the first quarter of 2015 compared to 59.2% during the first quarter of 2014 due to the items described above, as well as a decrease in revenues.

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Total direct costs for the three months ended March 31, 2015 included \$4.2 million of share-based compensation expense for our revenue-generating professionals compared to \$4.0 million for the same prior year period. Total direct costs for the three months ended March 31, 2015 included \$2.5 million of amortization expense for intangible assets and software development costs, primarily representing customer-related assets and software acquired in business combinations, compared to \$1.1 million of amortization expense for the same prior year period. The \$1.4 million increase in amortization expense was primarily attributable to \$1.8 million of amortization of intangible assets acquired in the Studer Group acquisition during the first quarter of 2015, partially offset by certain intangible assets that became fully amortized during 2014.

**Operating Expenses and Other Operating Gain**

Selling, general and administrative expenses increased \$4.6 million, or 12.3%, to \$42.3 million in the first quarter of 2015 from \$37.7 million in the first quarter of 2014. This increase was primarily related to a \$3.0 million increase in salaries and related expenses for our support personnel, a \$0.6 million increase in facilities and other office related expenses, a \$0.4 million increase in bonus expense for our support personnel, a \$0.4 million increase in legal expenses, and a \$0.3 million increase in outside professional services expenses, partially offset by a \$0.4 million decrease in practice administration and meetings expense. As a percentage of revenues, selling, general and administrative expenses increased to 22.5% during the first quarter of 2015 compared to 17.9% during the first quarter of 2014 due to the items described above, as well as a decrease in revenues. We incurred \$1.3 million of transaction and acquisition related costs in the first quarter of 2015, of which \$1.0 million was associated with the Studer Group acquisition.

Restructuring charges for the first quarter of 2015 totaled \$1.6 million related to workforce reductions to better align our resources with market demand. Of the \$1.6 million pretax charge, \$1.0 million related to our Huron Legal segment, \$0.5 million related to our All Other segment, and \$0.1 million related to our corporate operations. During the first quarter of 2014, we incurred a \$0.1 million pretax restructuring charge related to workforce reductions in our London office to better align our resources with market demand in our Huron Legal segment.

During the first quarter of 2015, we recorded a remeasurement gain of \$0.2 million related to the contingent consideration liability incurred in connection with a business acquisition during the fourth quarter of 2014. The initial acquisition date fair value of this liability was \$0.2 million. There was no remeasurement gain or loss for the comparable period last year.

Depreciation and amortization expense increased by \$1.7 million to \$7.8 million in the three months ended March 31, 2015, from \$6.1 million in the three months ended March 31, 2014. The increase was primarily attributable to \$1.0 million of amortization expense for intangible assets acquired in the Studer Group acquisition during the first quarter of 2015. Intangible asset amortization included within operating expenses relates to certain customer relationships, non-competition agreements, trade names, and licenses acquired in connection with our acquisitions.

**Operating Income**

Operating income decreased \$33.1 million, or 79.0%, to \$8.8 million in the first quarter of 2015 from \$41.8 million in the first quarter of 2014. Operating margin, which is defined as operating income expressed as a percentage of revenues, decreased to 4.7% in the three months ended March 31, 2015, compared to 19.8% in the three months ended March 31, 2014. The decrease in operating margin was primarily attributable to the increases in salaries and related expenses and bonus expense for our revenue-generating professionals during the first quarter of 2015, as well as the increases in salaries and related expenses and bonus expense for our support personnel, intangible asset amortization expense, and facilities and other office related expenses during the first quarter of 2015, as well as a decline in

revenues, compared to the same period last year.

**Other Expense, Net**

Total other expense, net increased by \$3.9 million to \$5.1 million in the first quarter of 2015 from \$1.2 million in the first quarter of 2014. The increase was primarily attributable to a \$3.0 million increase in interest expense and a \$0.9 million increase in foreign currency transaction losses. The increase in interest expense was due to our Convertible Notes issued in September 2014 and interest expense resulting from higher levels of borrowings. For the three months ended March 31, 2015, interest expense related to the coupon of the Convertible Notes was \$0.8 million and the non-cash interest expense related to the amortization of the debt discount and amortization of debt issuance costs totaled \$2.0 million. For the year ending December 31, 2015, we expect interest expense related to the coupon of the Convertible Notes to be \$3.1 million and interest expense for the amortization of the debt discount and debt issuance costs related to the Convertible Notes to be \$8.3 million.

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**Table of Contents****Income Tax Expense**

For the first quarter of 2015, we recognized income tax expense of \$2.1 million on income of \$3.6 million. For the first quarter of 2014, we recognized income tax expense from continuing operations of \$6.5 million on income of \$40.6 million. Our effective tax rate for the first quarter of 2015 was 58.8% compared with 16.0% for the same period last year. The effective tax rate for the three months ended March 31, 2015 was higher than the statutory rate, inclusive of state income taxes, primarily due to foreign losses with no tax benefit and certain non-deductible expenses as a percentage of pretax income. We expect our effective tax rate for the full year 2015 to decrease to a rate that approximates the statutory rate, inclusive of state income taxes, as pretax income increases during the year in relation to foreign losses with no tax benefit. The effective tax rate for the three months ended March 31, 2014 was lower than the statutory rate, inclusive of state income taxes, due primarily to the impact of a tax election made in the first quarter of 2014 to classify one of our wholly-owned foreign subsidiaries as a disregarded entity for U.S. federal income tax purposes (commonly referred to as a "check-the-box" election). As a result of this election, we expect to realize an income tax benefit of \$13.8 million, of which \$2.4 million is unrecognized, resulting in a net recognized tax benefit of \$11.4 million during the quarter. This recognized benefit was partially offset by \$1.2 million in expenses related to the establishment of a valuation allowance for certain foreign tax credits and increased deferred tax liabilities as a result of the aforementioned election.

**Net Income**

Net income was \$1.5 million for the three months ended March 31, 2015, compared to net income of \$34.1 million for the same period last year. The \$32.6 million decrease in net income was primarily due to the decrease in operating income, as discussed above. As a result of the decrease in net income, diluted earnings per share for the first quarter of 2015 was \$0.07 compared to \$1.48 for the first quarter of 2014.

**EBITDA and Adjusted EBITDA**

EBITDA decreased \$29.9 million to \$19.1 million for the three months ended March 31, 2015, from \$49.0 million for the three months ended March 31, 2014. Adjusted EBITDA decreased \$28.7 million to \$20.4 million in the first quarter of 2015 from \$49.1 million in the first quarter of 2014. The decrease in both EBITDA and Adjusted EBITDA was primarily due to the decrease in segment operating income, as discussed below in Segment Results, and an increase in corporate expenses, including transaction costs associated with the Studer Group acquisition.

**Adjusted Net Income**

Adjusted net income decreased \$19.0 million to \$6.5 million in the first quarter of 2015 compared to \$25.5 million in the first quarter of 2014. The decrease was primarily attributable to the decrease in segment operating income and an increase in corporate expenses, including transaction costs associated with the Studer Group acquisition, partially offset by the lower tax expense when excluding the tax benefit related to our "check-the-box" election.

**Segment Results****Huron Healthcare****Revenues**

Huron Healthcare segment revenues decreased \$9.5 million, or 8.9%, to \$98.0 million for the first quarter of 2015 from \$107.5 million for the first quarter of 2014. Revenues for the first quarter of 2015 included \$11.4 million from

Studer Group, a business that we acquired on February 12, 2015, and \$7.7 million from Vonlay, a business that we acquired in the second quarter of 2014. During the three months ended March 31, 2015, revenues from time-and-expense engagements, fixed-fee engagements, performance-based arrangements, and software support and maintenance arrangements represented 8.3%, 71.9%, 13.8%, and 6.0% of this segment's revenues, respectively, compared to 1.7%, 65.1%, 28.9%, and 4.3%, respectively, for the comparable period in 2014.

Of the overall \$9.5 million decrease in revenues, \$21.4 million was attributable to our full-time billable consultants, partially offset by an \$11.9 million increase in revenue attributable to our full-time equivalents. The decrease in overall revenue for the Huron Healthcare segment primarily reflected a \$17.6 million decrease in performance-based fee revenue for the first quarter of 2015 compared to the same prior year period, as well as lower revenues due to project timing as we transition between engagements.

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Performance-based fee revenue was \$13.5 million during the first quarter of 2015 compared to \$31.1 million during the first quarter of 2014. The level of performance-based fees earned may vary based on our clients' preferences and the mix of services we provide. Performance-based fee arrangements may cause significant variations in revenues, operating results, and average billing rates due to our level of execution and the timing of achievement of the performance-based criteria.

The decrease in full-time billable consultant revenues reflected decreases in the average billing rate and consultant utilization rate, partially offset by an increase in the average number of full-time billable consultants. The increase in revenue attributable to our full-time equivalents reflected an increase in both the average number of full-time equivalents and revenue per full-time equivalent in the first quarter of 2015 compared to the same prior year period, and is primarily the result of our Studer Group acquisition.

**Operating Income**

Huron Healthcare segment operating income decreased \$22.2 million, or 43.4%, to \$29.0 million for the three months ended March 31, 2015, from \$51.2 million for the three months ended March 31, 2014. The Huron Healthcare segment operating margin, defined as segment operating income expressed as a percentage of segment revenues, decreased to 29.6% for the first quarter of 2015 from 47.6% in the same period last year. The decrease in this segment's operating margin was primarily attributable to an increase in salaries and related expenses and bonus expense for our revenue-generating professionals and support personnel, as well as an increase in intangible asset amortization expense resulting from our acquisition of Studer Group.

**Huron Legal****Revenues**

Huron Legal segment revenues decreased \$21.5 million, or 39.2%, to \$33.4 million for the first quarter of 2015 from \$55.0 million for the first quarter of 2014. Revenues for the first quarter of 2015 included \$0.2 million from Sky Analytics, a business that we acquired in the first quarter of 2015. Revenues from time-and-expense engagements, fixed-fee engagements, and software support and maintenance arrangements represented 95.9%, 3.6%, and 0.5% of this segment's revenues, respectively, during the three months ended March 31, 2015, compared to 97.7%, 2.1%, and 0.2% of this segment's revenues, respectively, during the three months ended March 31, 2014.

Of the overall \$21.5 million decrease in revenues, \$19.1 million was attributable to a decrease in revenue generated by our full-time equivalents and \$2.4 million was attributable to a decrease in revenue generated by our full-time billable consultants. The decrease in revenue attributable to our full-time equivalents, which was the result of decreased demand for our discovery services, primarily reflected a decrease in the average number of full-time equivalents. The decrease in full-time billable consultant revenue reflected decreases in the consultant utilization rate and average number of full-time billable consultants, partially offset by an increase in the average billing rate.

**Operating Income**

Huron Legal segment operating income decreased by \$8.9 million, or 71.2%, to \$3.6 million for the three months ended March 31, 2015, from \$12.5 million for the three months ended March 31, 2014. Segment operating margin decreased to 10.7% for the first quarter of 2015 from 22.7% in the same period last year. The decrease in this segment's operating margin was primarily attributable to an increase, as a percentage of revenue, in salaries and related expenses for both our revenue-generating professionals and support personnel, as well as an increase in restructuring expense, an increase in rent and utilities expenses for our discovery centers, and an increase in technology expenses as



a percentage of revenues, partially offset by a decrease in contractor expense and bonus expense for our revenue-generating professionals, both as a percentage of revenues.

Huron Legal revenue and operating income for the first quarter of 2015 were significantly lower than each of the first three quarters of 2014, stemming largely from a more sudden than anticipated downturn in business resulting from client settlements of government investigations related to the credit crisis, which also negatively impacted this segment's results in the fourth quarter of 2014. The Huron Legal segment leadership team is currently executing several initiatives to improve the segment's financial performance and increase sales of their service offerings. We believe that the services provided by the Huron Legal segment remain relevant in the marketplace and expect performance to improve during the remainder of 2015 compared to the first quarter of 2015 and fourth quarter of 2014. In the event that the segment's performance does not improve in line with our expectations during the remainder of 2015, we may be required to perform an interim impairment analysis with respect to the carrying value of goodwill for this reporting unit prior to our annual test, and based on the outcome of that analysis, could be required to take an impairment charge as a result of any such test. For a discussion of our first quarter 2015 interim goodwill impairment test, see [Critical Accounting Policies - Carrying Values of Goodwill and Other Intangible Assets](#) below.

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**Table of Contents****Huron Education and Life Sciences****Revenues**

Huron Education and Life Sciences segment revenues increased \$6.3 million, or 18.8%, to \$39.9 million for the first quarter of 2015 from \$33.6 million for the first quarter of 2014. Revenues from time-and-expense engagements, fixed-fee engagements, and software support and maintenance arrangements represented 65.0%, 30.3%, and 4.7% of this segment's revenues, respectively, during the three months ended March 31, 2015, compared to 71.9%, 23.6%, and 4.5%, respectively, for the comparable period in 2014.

Of the overall \$6.3 million increase in revenues, \$6.2 million was attributable to an increase in revenue generated by our full-time billable consultants and \$0.1 million was attributable to an increase in revenue generated by our full-time equivalents. The increase in revenue from our full-time billable consultants primarily reflected increases in the average billing rate and consultant utilization rate, partially offset by a decrease in the average number of full-time billable consultants. The increase in revenue from our full-time equivalents reflected an increase in revenue per full-time equivalent, partially offset by a slight decrease in the average number of full-time equivalents.

**Operating Income**

Huron Education and Life Sciences segment operating income increased \$5.3 million, or 82.7%, to \$11.8 million for the three months ended March 31, 2015, from \$6.4 million for the three months ended March 31, 2014. The Huron Education and Life Sciences segment operating margin increased to 29.5% for the first quarter of 2015 from 19.2% in the same period last year. The increase in this segment's operating margin was primarily attributable to revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals, as well as decreases in contractor expense, promotion and sponsorship expenses, salaries and related expenses for our support personnel, and practice administration and meetings expenses, partially offset by an increase in bonus expense for our revenue-generating professionals as a percentage of revenues.

**Huron Business Advisory****Revenues**

Huron Business Advisory segment revenues increased \$2.4 million, or 17.6%, to \$15.7 million for the first quarter of 2015 from \$13.4 million for the first quarter of 2014. Revenues for the first quarter of 2015 included \$0.4 million from Threshold Consulting, Inc., a business that we acquired in the fourth quarter of 2014. Revenues from time-and-expense engagements, fixed-fee engagements, and software support and maintenance arrangements represented 85.5%, 13.9%, and 0.1% of this segment's revenues, respectively, during the first quarter of 2015. Revenues from time-and-expense engagements, fixed-fee engagements, and performance-based arrangements represented 84.4%, 11.9%, and 3.7% of this segment's revenues, respectively, during the first quarter of 2014.

Of the overall \$2.4 million increase in revenues, \$2.6 million was attributable to an increase in revenue generated by our full-time billable consultants, partially offset by a \$0.2 million decrease in revenue generated by our full-time equivalents. The increase in revenue from our full-time billable consultants was driven by an increase in the average number of full-time billable consultants and consultant utilization rate, partially offset by a decrease in the average billing rate. The decrease in revenue from our full-time equivalents was primarily the result of a decrease in the average number of full-time equivalents.

**Operating Income**

Huron Business Advisory segment operating income decreased by \$1.0 million, or 37.4%, to \$1.6 million for the three months ended March 31, 2015, from \$2.6 million for the three months ended March 31, 2014. Segment operating margin decreased to 10.2% for the first quarter of 2015 from 19.1% in the same period last year. The decrease in this segment's operating margin was primarily attributable to increases in salaries and related expenses and bonus expense for our revenue-generating professionals and support personnel as a percentage of revenues, partially offset by decreases in contractor expense, intangible asset amortization expense, and practice administration and meetings expenses.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents decreased \$249.7 million, from \$256.9 million at December 31, 2014 to \$7.2 million at March 31, 2015. As of March 31, 2015, our primary sources of liquidity are cash on hand, cash flows from our U.S. operations, and borrowing capacity available under our credit facility.

| <b>Cash Flows (in thousands):</b>                   | <b>Three Months Ended</b> |                    |
|---|---------------------------|--------------------|
|   | <b>March 31,</b>          |                    |
|   | <b>2015</b>               | <b>2014</b>        |
| Net cash used in operating activities               | \$ (42,154)               | \$ (9,165)         |
| Net cash used in investing activities               | (345,730)                 | (22,218)           |
| Net cash provided by (used in) financing activities | 138,229                   | (5,121)            |
| Effect of exchange rate changes on cash             | (34)                      | 14                 |
| <b>Net decrease in cash and cash equivalents</b>    | <b>\$ (249,689)</b>       | <b>\$ (36,490)</b> |

***Operating Activities***

Net cash used in operating activities totaled \$42.2 million for the three months ended March 31, 2015, and \$9.2 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, accrued payroll and related benefits, and deferred revenues. The volume of services rendered and the related billings and timing of collections on those billings, as well as payments of our accounts payable and salaries, bonuses, and benefits to employees affect these account balances. The increase in cash used in operations was primarily attributable to lower net income, decreased collections of receivables from clients, and an increase in the amount paid for annual performance bonuses during the first three months of 2015 when compared with the first three months of 2014, partially offset by a decrease in the growth rate of unbilled services from clients during the first three months of 2015 when compared with the first three months of 2014.

***Investing Activities***

Net cash used in investing activities was \$345.7 million for the three months ended March 31, 2015, and \$22.2 million for the same period last year. The use of cash in the first three months of 2015 primarily consisted of \$331.8 million for purchases of businesses and \$6.5 million for purchases of property and equipment. During the first quarter of 2015, we made a \$2.5 million investment, in the form of a zero coupon convertible debt instrument, in Shorelight, as described in Note 10 Fair Value of Financial Instruments within the notes to the consolidated financial statements. The use of cash in the first three months of 2014 primarily consisted of \$17.4 million for purchases of businesses and \$4.8 million for purchases of property and equipment.

We estimate that the cash utilized for purchases of property and equipment in 2015 will be approximately \$30.0 million, primarily consisting of information technology related equipment and leasehold improvements to support our corporate infrastructure and our document review and processing services.

***Financing Activities***

Net cash provided by financing activities was \$138.2 million for the three months ended March 31, 2015, while net cash used in financing activities was \$5.1 million for the same period last year. During the first three months of 2015, we borrowed \$197.5 million under our credit facility, including \$102.0 million for the Studer Group acquisition, and made repayments on our credit facility of \$57.5 million. During the first three months of 2014, there were no borrowings made under our credit facility, while repayments under our credit facility totaled \$6.3 million related to our term loan.

In October 2014, our board of directors authorized a share repurchase program pursuant to which we may, from time to time, repurchase up to \$50 million of our common stock through October 31, 2015 (the October 2014 Share Repurchase Program ). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, general market and business conditions, and applicable legal requirements. As of March 31, 2015, \$50 million remains available for share repurchases under the October 2014 Share Repurchase Program.

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### ***Financing Arrangements***

At March 31, 2015, we had \$250.0 million principal amount of our 1.25% convertible senior notes outstanding and \$283.8 million outstanding under our senior secured credit facility, as discussed below.

#### *1.25% Convertible Senior Notes*

In September 2014, we issued \$250 million principal amount of the Convertible Notes in a private offering. The Convertible Notes are senior unsecured obligations of the Company and will pay interest semi-annually on April 1 and October 1 of each year at an annual rate of 1.25%. The Convertible Notes will mature on October 1, 2019, unless earlier repurchased by the Company or converted in accordance with their terms.

Upon conversion, the Convertible Notes will be settled, at our election, in cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock. Our current intent and policy is to settle conversions with a combination of cash and shares of common stock with the principal amount of the Convertible Notes paid in cash, in accordance with the settlement provisions of the Indenture.

The initial conversion rate for the Convertible Notes is 12.5170 shares of our common stock per \$1,000 principal amount of the Convertible Notes, which is equal to an initial conversion price of approximately \$79.89 per share of our common stock.

In connection with the issuance of the Convertible Notes, we entered into convertible note hedge transactions and warrant transactions. The convertible note hedge transactions are intended to reduce the potential future economic dilution associated with the conversion of the Convertible Notes and, combined with the warrants, effectively raise the price at which economic dilution would occur from the initial conversion price of approximately \$79.89 to approximately \$97.12 per share.

For further information see Note 7 Financing Arrangements within the notes to the consolidated financial statements.

#### *Senior Secured Credit Facility*

On March 31, 2015, the Company and certain of the Company's subsidiaries entered into a Second Amended and Restated Credit Agreement dated as of March 31, 2015 (the Amended Credit Agreement). The Amended Credit Agreement amended and restated, in its entirety, the Amended and Restated Credit Agreement entered into as of April 14, 2011 (as amended and modified, the Existing Credit Agreement).

The Amended Credit Agreement consists of a \$500 million senior secured revolving credit facility that matures on March 31, 2020, and provides for the option to increase the revolving credit facility or establish term loan facilities in an aggregate amount of up to \$100 million, subject to customary conditions and the approval of any lender whose commitment would be increased, resulting in a maximum available principal amount under the Amended Credit Agreement of \$600 million. The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under the Existing Credit Agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, share repurchases, and general corporate purposes.

Fees and interest on borrowings vary based on our Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). At our option, borrowings under the Amended Credit Agreement will bear interest at either one, two, three or six month LIBOR or an alternate base rate, in each case plus the applicable margin. Borrowings will initially bear interest at LIBOR plus 1.50% per annum, in the case of LIBOR borrowings, or at the alternate base rate plus

0.50% per annum, in the case of base rate loans. After the date the compliance certificate is required to be received for the quarter ending March 31, 2015, the applicable margin will fluctuate between 1.25% per annum and 1.75% per annum, in the case of LIBOR borrowings, or between 0.25% per annum and 0.75% per annum, in the case of base rate loans, based upon the our Consolidated Leverage Ratio at such time.

Amounts borrowed under the Amended Credit Agreement may be prepaid at any time without premium or penalty. We are required to prepay the amounts outstanding under the Amended Credit Agreement in certain circumstances, including a requirement to pay all amounts outstanding under the Amended Credit Agreement 90 days prior to the Convertible Indebtedness Maturity Date (as defined in the Amended Credit Agreement) unless (1) the Convertible Indebtedness Maturity Date is waived or extended to a later date, (2) the Company can demonstrate (a) Liquidity (as defined in the Amended Credit Agreement) in an amount at least equal to the principal amount due on the Convertible Indebtedness Maturity Date, and (b) financial covenant compliance after giving effect to such payments and any additional indebtedness incurred on a pro forma basis, or (3) this

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requirement is waived by the Required Lenders (as defined in the Amended Credit Agreement). In addition, we have the right to permanently reduce or terminate the unused portion of the commitments provided under the Amended Credit Agreement at any time.

Borrowings outstanding under the Amended Credit Agreement at March 31, 2015 totaled \$283.8 million. These borrowings carried a weighted average interest rate of 2.5%, including the effect of the interest rate swaps described in Note 9 Derivative Instruments and Hedging Activity within the notes to the consolidated financial statements. Borrowings outstanding under the Existing Credit Agreement at December 31, 2014 were \$143.8 million and carried a weighted average interest rate of 2.3%. The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At March 31, 2015, we had outstanding letters of credit totaling \$5.1 million, which are primarily used as security deposits for our office facilities. As of March 31, 2015, the unused borrowing capacity under the revolving credit facility was \$211.1 million.

For further information see Note 7 Financing Arrangements within the notes to the consolidated financial statements.

## **Future Needs**

Our primary financing need has been to fund our growth. Our growth strategy is to expand our service offerings, which may require investments in new hires, acquisitions of complementary businesses, possible expansion into other geographic areas, and related capital expenditures. We believe our internally generated liquidity, together with our available cash, the borrowing capacity available under our revolving credit facility, and access to external capital resources will be adequate to fund our long-term growth and capital needs arising from cash commitments and debt service obligations. 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 the overall condition of the credit markets.

## **CONTRACTUAL OBLIGATIONS**

For a summary of our commitments to make future payments under contractual obligations, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations in our Annual Report on Form 10-K for the year ended December 31, 2014.

As discussed above in Liquidity and Capital Resources, on March 31, 2015 we entered into the Amended Credit Agreement consisting of a \$500 million five-year senior secured revolving credit facility. The Amended Credit Agreement matures on March 31, 2020 and amended and restated, in its entirety, the Existing Credit Agreement. The Amended Credit Agreement provides for, among other things, an extension of the maturity date and a reduction in pricing, and replaced the existing revolving credit and term loan facility with an increased revolving credit facility. Borrowings outstanding under the Amended Credit Agreement at March 31, 2015 totaled \$283.8 million. Refer to Liquidity and Capital Resources and Note 7 Financing Arrangements within the notes to the consolidated financial statements for more information on our outstanding borrowings.

There have been no other material changes in our contractual obligations since December 31, 2014.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We are not a party to any off-balance sheet arrangements.





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**Table of Contents****CRITICAL ACCOUNTING POLICIES**

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. We regularly review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate information relative to the current economic and business environment. The preparation of financial statements in conformity with GAAP requires management to make assessments, estimates, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that we believe present the most complex or subjective measurements and have the most potential to impact our financial position and operating results. While all decisions regarding accounting policies are important, we believe that there are four accounting policies that could be considered critical: revenue recognition, allowances for doubtful accounts and unbilled services, carrying values of goodwill and other intangible assets, and accounting for income taxes. For a detailed discussion of these critical accounting policies, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2014. Below is an update to our critical accounting policy relating to the carrying values of goodwill and other intangible assets. There have been no material changes to our other critical accounting policies during the first three months of 2015.

***Carrying Values of Goodwill and Other Intangible Assets***

During the fourth quarter of 2014, as part of our annual goodwill impairment test, we performed the first step of the quantitative two-step impairment test for our Huron Legal segment. Based on the results of that test, in which we compared the fair value of the reporting unit to its carrying value, including goodwill, we determined that the fair value of the Huron Legal reporting unit exceeded its carrying value by 28%, or \$28.7 million; however, this represented a significant decrease compared to the prior quantitative impairment analysis performed as of November 30, 2012. The decrease was primarily a result of a decrease in expected after-tax cash flows that will be generated by the reporting unit, which was driven by the decline in revenue and operating income during the second half of 2014, and especially the fourth quarter of 2014. The fourth quarter 2014 results for the Huron Legal reporting unit were significantly lower than each of the first three quarters of 2014 and did not meet management's expectations, stemming largely from a more sudden than anticipated downturn in business resulting from client settlements of government investigations related to the credit crisis.

During the first three months of 2015, the operating results for Huron Legal were generally in line with management's expectations for the quarter but still significantly below the results achieved during the first three quarters of 2014. Given the increase in the reporting unit's carrying value as a result of the Sky Analytics acquisition and continued weakened results compared to the first nine months of 2014, we performed an interim impairment test for the goodwill balances within our Huron Legal reporting unit as of March 31, 2015. Our goodwill impairment test was performed using the quantitative two-step process. Based on the results of the first step of the goodwill impairment test, we determined that the fair value of our Huron Legal reporting unit exceeded its carrying value by 25%, or \$28.8 million. Since the fair value of the reporting unit exceeded its carrying value, the second step of the goodwill impairment test was not necessary.

The Huron Legal segment leadership team is continuing to execute several initiatives to improve the segment's financial performance and increase sales of their service offerings. We believe that the services provided by the Huron Legal segment remain relevant in the marketplace and expect performance to improve during the remainder of 2015 compared to the prior two quarters. In the event that the segment's performance does not improve in line with our expectations during the remainder of 2015, we may be required to perform an interim impairment analysis with

respect to the carrying value of goodwill for this reporting unit prior to our annual test, and could be required to take an impairment charge as a result of any such test.

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

In the income approach, we utilized a discounted cash flow analysis, which involved estimating the expected after-tax cash flows that will be generated by the reporting units and then discounting those cash flows to present value reflecting the relevant risks associated with the reporting units and the time value of money. This approach requires the use of significant estimates and assumptions, including long-term projections of future cash flows, market conditions, discount rates reflecting the risk inherent in future cash flows, revenue growth, perpetual growth rates, and profitability, among others. In estimating future cash flows, we relied on an internally generated seven-year forecast. For periods after the seven-year forecast, we assumed a long-term annual

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revenue growth rate of 3.5%. Our forecast is based on historical experience, current backlog, expected market demand, and other industry information. Our discounted cash flow analysis assumed a weighted average cost of capital ( WACC ) discount rate of 13.0%.

In the market approach, we utilized the guideline company method, which involved calculating valuation multiples based on operating data from guideline publicly traded companies. Multiples derived from guideline companies provide an indication of how much a knowledgeable investor in the marketplace would be willing to pay for a company. These multiples were then evaluated and adjusted based on our specific characteristics relative to the selected guideline companies and applied to the operating data for the Huron Legal reporting unit to arrive at an indication of value.

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

The table below presents, based on the goodwill impairment test performed as of March 31, 2015, the decrease in the fair value of our Huron Legal reporting unit given a 100 basis point increase in the assumed discount rate or a 100 basis point decrease in the assumed long-term annual revenue growth rate.

|   | <b>Decrease in<br/>Fair Value of<br/>the Reporting<br/>Unit<br/>(in thousands)</b> | <b>Percentage by<br/>which Fair<br/>Value Exceeds<br/>Carrying<br/>Amount</b> |
|---|--|---|
| Discount rate increase by 100 bps         | \$ 5,500   | 20%   |
| Long-term growth rate decrease by 100 bps | \$ 3,600   | 22%   |

**NEW ACCOUNTING PRONOUNCEMENTS**

Refer to Note 3 New Accounting Pronouncements within the notes to the consolidated financial statements for information on new accounting pronouncements.

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**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risks primarily from changes in interest rates and changes in the market value of our investments.

***Market Risk and Interest Rate Risk***

The value of the Convertible Notes is exposed to interest rate risk. Generally, the fair value of our fixed interest rate Convertible Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of our Convertible Notes is affected by our stock price. The carrying value of our Convertible Notes was \$214.6 million as of March 31, 2015, which represents the liability component of the \$250 million principal balance. The total estimated fair value of our Convertible Notes at March 31, 2015 was \$275.7 million, and was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market as of the last day of trading for the quarter ended March 31, 2015, which was \$110.298 per \$100 principal amount.

Concurrent with the issuance of the Convertible Notes, we entered into separate convertible note hedge and warrant transactions. The convertible note hedge transactions are intended to reduce the potential future economic dilution associated with the conversion of the Convertible Notes and, combined with the warrants, effectively raise the price at which economic dilution would occur from the initial conversion price of approximately \$79.89 to approximately \$97.12 per share. Under the convertible note hedge transactions, we have the option to purchase a total of approximately 3.1 million shares of our common stock, which is the number of shares initially issuable upon conversion of the Convertible Notes in full, at a price of approximately \$79.89, which corresponds to the initial conversion price of the Convertible Notes, subject to customary anti-dilution adjustments substantially similar to those in the Convertible Notes. Under the warrant transactions, the holders of the warrants have the option to purchase a total of approximately 3.1 million shares of our common stock at a price of approximately \$97.12. If the average market value per share of our common stock for the reporting period exceeds the strike price of the warrants, the warrants will have a dilutive effect on our earnings per share.

We have exposure to changes in interest rates associated with borrowings under our bank credit facility, which has variable interest rates tied to LIBOR or an alternate base rate, at our option. At March 31, 2015, we had borrowings outstanding under the credit facility totaling \$283.8 million that carried a weighted average interest rate of 2.5% including the effect of the interest rate swaps described below. A hypothetical 100 basis point change in this interest rate would have a \$1.7 million effect on our pretax income including the effect of the interest rate swaps described below.

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

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

On April 4, 2013, we entered into a forward amortizing interest rate swap agreement effective on March 31, 2014 and ending on August 31, 2017. We entered into this derivative instrument to further hedge against the interest rate risks

of our variable-rate borrowings described above. The swap has an initial notional amount of \$60.0 million and amortizes throughout the term. Under the terms of the interest rate swap agreement, we will receive from the counterparty interest on the notional amount based on one-month LIBOR and we will pay to the counterparty a fixed rate of 0.985%.

Including the impact of the above swap agreements, the effective interest rate on \$110.0 million of our variable-rate debt, which equals the notional amount of the swap agreements in effect at March 31, 2015, was 2.4%.

We have a non-interest bearing convertible debt investment in a privately-held company, which we account for as an available-for-sale security. As such, the investment is carried at fair value with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income. As of March 31, 2015, the fair value of the investment was \$14.7 million, with a total cost basis of \$15.0 million.

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

### **ITEM 4. CONTROLS AND PROCEDURES**

#### *Evaluation of Disclosure 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 March 31, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2015, 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.

#### *Changes in Internal Control over Financial Reporting*

Except for the change noted below, 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 three months ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

During the three months ended March 31, 2015, we completed the acquisition of Studer Group, as discussed in Note 5 Acquisitions within the notes to the consolidated financial statements included in this Form 10-Q. We intend to evaluate Studer Group's internal controls and, if necessary, make any changes that we believe to be appropriate to those internal controls as we integrate the acquired business with ours. Management intends to exclude the internal controls of Studer Group in its annual assessment of the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 for the year ended December 31, 2015. This exclusion is in accordance with the general guidance issued by the Securities and Exchange Commission that an assessment of a recent business combination may be omitted from management's report on internal control over financial reporting in the first year of consolidation.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

On August 22, 2013, we learned that Tamalluk Business Development LLC, who was Huron's agent in Abu Dhabi, and its principal, Mubarak Ahmad Bin Hamouda Al Dhaheri, filed a claim against Huron Consulting Services LLC in the Abu Dhabi Court of First Instance. The lawsuit alleges that under the agency agreement, Tamalluk was entitled to a commission on certain amounts that Huron collected from Abu Dhabi clients, and that Huron breached the agreement with Tamalluk and caused damages by declining to enter into a client engagement in Abu Dhabi and subsequently terminating the agency agreement with Tamalluk. Claimants allege they are entitled to \$50 million for

damage to reputation and defamation and another \$50 million for breach of contract. Huron submitted its written response on September 25, 2013. The response states that Huron had the right to terminate the agency agreement with Tamalluk, and Huron had the sole discretion whether to accept or reject an engagement. Huron also filed a counterclaim on October 10, 2013 seeking a judicial order to permit the cancellation of Huron's commercial license to allow Huron to cease doing business in Abu Dhabi. On December 17, 2013, the Abu Dhabi court ruled in Huron's favor on all claims and held that Huron permissibly terminated the contract with Tamalluk and Huron does not owe Tamalluk any compensation related to Tamalluk's claims. In addition, the court terminated the Local Sponsorship Agreement as requested by Huron in its counterclaim. Tamalluk appealed the decision, and on March 18, 2014, the appellate court upheld the decision in Huron's favor. Tamalluk filed an appeal on May 18, 2014 to the Court of Cassation, which is the highest court in Abu Dhabi. On October 21, 2014, the Court of Cassation referred the case back to the appellate court for consideration of Claimants' allegations relating to damage to reputation and defamation, which the appellate court had not previously addressed. The Court of Cassation ruled in Huron's favor on the other claims and on Huron's counterclaim. We continue to believe that the remaining claims are without merit and intend to vigorously defend ourselves in this matter.



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*Physiotherapy Associates*

In 2011, Huron was engaged to design and implement new processes, software, tools, and techniques to assist Physiotherapy Associates, Inc. ( PA ) in reducing older accounts receivable levels and optimizing cash flow. The engagement agreement specifically provides that Huron will not be auditing financial statements and that Huron's services are not designed, and should not be relied on, to disclose weaknesses in internal controls, financial statement errors, irregularities, illegal acts, or disclosure deficiencies.

In November 2013, Physiotherapy Holdings, Inc., and certain subsidiaries and affiliates (including PA) filed a voluntary petition for bankruptcy pursuant to Chapter 11 of the Bankruptcy Code, which resulted in part from claims related to an alleged overstatement of PA's revenues and profitability in connection with the sale of PA in 2012. The Joint Prepackaged Plan of Reorganization (the Plan ), which was confirmed by the Bankruptcy Court in December 2013, establishes and funds a Litigation Trust to pursue certain claims on behalf of certain beneficiaries. The Plan discloses a lengthy list of potential defendants and witnesses regarding these claims, including but not limited to the debtors' officers, directors, certain employees, former owners, investment bankers, auditors, and various consultants. This list of potential defendants and witnesses includes Huron, as well as three of Huron's current or former employees.

The Plan suggests that Huron, among others, was involved in actively marketing PA for sale and provided opinions to unnamed parties defending the quality of PA's earnings. The Plan further states that the damages to be sought by the Litigation Trust will exceed \$300 million. The Litigation Trust has not specified against which potential defendants it will bring claims, if any. We believe the Litigation Trust's allegations with respect to Huron are without merit and will vigorously defend ourselves should any claim arising out of these alleged facts and circumstances be asserted against us by the Litigation Trust.

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

**ITEM 1A. RISK FACTORS**

See Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 for a complete description of the material risks we face.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On February 12, 2015, as partial consideration for our acquisition of Studer Group, we issued 28,486 shares of the Company's common stock, par value \$0.01 per share, with an aggregate value of approximately \$2.2 million, to certain Studer Group shareholders. The issuance was exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, as a transaction by an issuer not involving a public offering.

Our 2012 Omnibus Incentive Plan and our 2004 Omnibus Stock Plan, which was replaced by the 2012 Omnibus Incentive Plan, permit the netting of common stock upon vesting of restricted stock awards to satisfy individual tax withholding requirements. During the quarter ended March 31, 2015, we reacquired 66,629 shares of common stock with a weighted average fair market value of \$67.32 as a result of such tax withholdings.

In October 2014, our board of directors authorized a share repurchase program pursuant to which we may, from time to time, repurchase up to \$50 million of our common stock through October 31, 2015 (the "October 2014 Share Repurchase Program"). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, general market and business conditions, and applicable legal requirements.

The following table provides information with respect to purchases we made of our common stock during the quarter ended March 31, 2015.

| Period                               | Total Number of Shares Purchased <sup>(1)</sup> | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs |   |
|--------------------------------------|---|------------------------------|--|---|
|                                      |   |                              | Total Number of Shares Purchased   | Dollar Value of Shares that may yet be Purchased under the Plans or Programs <sup>(2)</sup> |
| January 1, 2015 – January 31, 2015   | 3,083   | \$ 68.39                     |  | \$ 50,000,000   |
| February 1, 2015 – February 28, 2015 | 5,086   | \$ 74.68                     |  | \$ 50,000,000   |
| March 1, 2015 – March 31, 2015       | 58,460  | \$ 66.62                     |  | \$ 50,000,000   |
| Total                                | 66,629  | \$ 67.32                     |  |   |

(1) The number of shares repurchased for each period represents shares to satisfy employee tax withholding requirements. These shares do not reduce the repurchase authority under the October 2014 Share Repurchase Program.

(2) As of the end of the period.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

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

| Exhibit Number | Exhibit Description   | Filed herewith | Furnished herewith | Incorporated by Reference |               |                     |
|----------------|---|----------------|--------------------|---------------------------|---------------|---------------------|
|                |   |                |                    | Form                      | Period Ending | Filing Exhibit Date |
| 2.1            | Agreement and Plan of Merger, dated as of January 26, 2015, by and among Huron Consulting Group Inc., Texas Acquisition Inc., Studer Holdings and Fortis Advisors LLC, solely in the capacity as stockholders and optionholders representative thereunder.  |                |                    | 8-K                       |               | 2.1 2/13/15         |
| 10.1           | Second Amended and Restated Credit Agreement, dated as of March 31, 2015, among Huron Consulting Group Inc., as Borrower, certain subsidiaries as Guarantors, the Lenders Party Hereto and Bank of America, N.A., as Administrative Agent and Collateral Agent, JPMorgan Chase Bank, N.A., as Syndication Agent, PNC Bank, Bank of Montreal and Key Bank National Association as Co-Documentation Agents, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Book Managers. |                |                    | 8-K                       |               | 10.1 4/2/15         |
| 10.2           | Second Amended and Restated Security Agreement, dated as of March 31, 2015.   |                |                    | 8-K                       |               | 10.2 4/2/15         |
| 10.3           | Second Amended and Restated Pledge Agreement, dated as of March 31, 2015.   |                |                    | 8-K                       |               | 10.3 4/2/15         |
| 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.   | X              |                    |                           |               |                     |
| 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.   | X              |                    |                           |               |                     |
| 32.1           | Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as  |                | X                  |                           |               |                     |

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. |   | X |
| 101.INS | XBRL Instance Document  | X |   |
| 101.SCH | XBRL Taxonomy Extension Schema Document   | X |   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document   | X |   |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document   | X |   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document  | X |   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document  | X |   |

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**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: April 28, 2015

/s/ C. Mark Hussey  
C. Mark Hussey  
Executive Vice President, Chief Operating Officer,  
Chief Financial Officer and Treasurer