Huron Consulting Group Inc.
Form 10-Q
April 27, 2006

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

FORM 10-Q

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

For the quarterly period ended March 31, 2006

OR

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

Commission file number: 000-50976

Huron Consulting Group Inc.
(Exact name of registrant as specified in its charter)

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

550 West Van Buren Street
Chicago, Illinois
60607
(Address of principal executive offices)
(Zip Code)

(312) 583-8700
(Registrant's telephone number, including area code)

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

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

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

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

As of April 20, 2006, 17,404,488 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

HURON CONSULTING GROUP INC.

INDEX

PART I ¾ FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HURON CONSULTING GROUP INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	March 31, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 16,177	$ 31,820
Receivables from clients, net	34,770	29,164
Unbilled services, net	21,246	18,187
Income tax receivable	¾	232
Deferred income taxes	14,110	12,553
Other current assets	7,897	5,799
Total current assets	94,200	97,755
Property and equipment, net	19,259	13,162
Deferred income taxes	2,978	2,154
Deposits and other assets	1,024	1,147
Intangible assets, net	629	844
Goodwill	14,637	14,637
Total assets	$ 132,727	$ 129,699
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 2,236	$ 2,671
Accrued expenses	7,289	4,357
Accrued payroll and related benefits	17,872	32,073
Income tax payable	2,666	491
Deferred revenues	4,127	4,609
Current portion of notes payable and capital lease obligations	1,138	1,282
Total current liabilities	35,328	45,483
Non-current liabilities:		
Accrued expenses	186	274
Notes payable and capital lease obligations, net of current portion	2,129	2,127
Deferred lease incentives	9,569	6,283
Total non-current liabilities	11,884	8,684
Commitments and contingencies	¾	¾
Stockholders' equity		
Common stock; $0.01 par value; 500,000,000 shares authorized; 17,608,266 and 17,397,312 shares issued at March 31, 2006 and December 31, 2005, respectively	176	174
Treasury stock, at cost, 229,045 and 148,933 shares at March 31, 2006 and December 31, 2005, respectively	(4,758)	(3,061)
Additional paid-in capital	64,990	58,908
Retained earnings	25,107	19,511
Total stockholders' equity	85,515	75,532
Total liabilities and stockholders equity	$ 132,727	$ 129,699

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

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

	Three months ended March 31, 2006		Three months ended March 31, 2005	
Revenues and reimbursable expenses:				
Revenues	$	62,187	$	46,760
Reimbursable expenses		5,439		4,370
Total revenues and reimbursable expenses		67,626		51,130
Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses)**:**				
Direct costs		35,990		25,944
Intangible assets amortization		76		¾
Reimbursable expenses		5,538		4,387
Total direct costs and reimbursable expenses		41,604		30,331
Operating expenses:				
Selling, general and administrative		14,841		11,723
Depreciation and amortization		1,508		847
Total operating expenses		16,349		12,570
Operating income		9,673		8,229
Other income:				
Interest income, net		232		165
Other income		¾		1
Total other income		232		166
Income before provision for income taxes		9,905		8,395
Provision for income taxes		4,309		3,568
Net income	$	5,596	$	4,827
Earnings per share:				
Basic	$	0.35	$	0.31
Diluted	$	0.33	$	0.29
Weighted average shares used in calculating earnings per share:				
Basic		16,077		15,547
Diluted		16,995		16,677

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

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

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Stockholders' Equity
Balance at December 31, 2005	17,397,312	$ 174	$ (3,061)	$ 58,908	$ 19,511	$ 75,532
Net income	¾	¾	¾	¾	5,596	5,596
Issuance of common stock in connection with:						
Restricted stock awards, net of cancellations	5,000	¾	(833)	833	¾	¾
Exercise of stock options	205,954	2	¾	125	¾	127
Share-based compensation	¾	¾	¾	2,263	¾	2,263
Shares redeemed for employee tax withholdings	¾	¾	(864)	¾	¾	(864)
Income tax benefit on share-based compensation	¾	¾	¾	2,861	¾	2,861
Balance at March 31, 2006	17,608,266	$ 176	$ (4,758)	$ 64,990	$ 25,107	$ 85,515

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

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

	Three months ended March 31, 2006		Three months ended March 31, 2005	
Cash flows from operating activities:				
Net income	$	5,596	$	4,827
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		1,584		847
Deferred income taxes		(2,380)		(1,670)
Share-based compensation		2,263		1,410
Tax benefit from share-based compensation		¾		113
Allowances for doubtful accounts and unbilled services		404		547
Other		135		¾
Changes in operating assets and liabilities:				
Increase in receivables from clients		(5,319)		(1,244)
Increase in unbilled services		(3,750)		(4,720)
Decrease in income tax receivable		232		494
Increase in other current assets and other		(1,975)		(320)
Increase (decrease) in accounts payable and accrued expenses		5,695		(34)
Decrease in accrued payroll and related benefits		(14,201)		(9,810)
Increase in income tax payable		2,175		3,456
Decrease in deferred revenue		(482)		(408)
Net cash used in operating activities		(10,023)		(6,512)
Cash flows from investing activities:				
Purchase of property and equipment, net		(7,600)		(993)
Net cash used in investing activities		(7,600)		(993)
Cash flows from financing activities:				
Proceeds from exercise of stock options		127		12
Tax benefit from share-based compensation		2,861		¾
Shares redeemed for employee tax withholdings		(864)		¾
Principal payments under capital lease obligations		(144)		¾
Net cash provided by financing activities		1,980		12
Net decrease in cash and cash equivalents		(15,643)		(7,493)
Cash and cash equivalents:				
Beginning of the period		31,820		28,092
End of the period	$	16,177	$	20,599
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	¾	$	63
Cash paid for taxes	$	1,423	$	1,174

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

- 4 -

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

1. Description of Business

Huron Consulting Group Inc. was formed on March 19, 2002. Huron Consulting Group Inc., together with its indirect wholly-owned operating subsidiaries, Huron Consulting Services LLC and Speltz & Weis LLC, (collectively, the "Company"), is an independent provider of financial and operational consulting services, whose clients include Fortune 500 companies, medium-sized businesses, leading academic institutions, healthcare organizations and the law firms that represent these various organizations. In October 2004, the Company completed its initial public offering of shares of its common stock. The majority of the issued and outstanding common stock of the Company was held by HCG Holdings LLC until the first quarter of 2006, when it sold 7,245,000 shares of the Company's common stock in a secondary offering.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented in conformity with accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2005 included in the Company's annual report on Form 10-K. The Company's results for any interim period are not necessarily indicative of results for a full year or any other interim period.

3. Share-based Compensation

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

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

Prior to January 1, 2006, the Company accounted for share-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations and elected the disclosure option of SFAS No. 123 as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." SFAS No. 123 requires that companies either recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value, or provide pro forma disclosure of net income and earnings per share in the notes to the financial statements. Accordingly, the Company measured compensation expense for stock options as the excess, if any, of the estimated fair market value of the Company's stock at the date of grant over the exercise price. The following table details the effect on net income and earnings per share for the three months ended March 31, 2005 had compensation expense for the stock plans been recorded based on the fair value method under SFAS No. 123.

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

		Three Months Ended March 31, 2005
Net income	$	4,827
Add: Total share-based compensation expense included in reported net income, net of related tax effects		843
Deduct: Total share-based compensation expense determined under the fair value method for all awards, net of related tax effects		(892)
Pro forma net income	$	4,778
Earnings per share:		
Basic - as reported	$	0.31
Basic - pro forma	$	0.31
Diluted - as reported	$	0.29
Diluted - pro forma	$	0.29

Equity Incentive Plans

In 2004, the Company adopted the 2004 Omnibus Stock Plan (the “Omnibus Plan”), which replaced the Company’s prior share-based compensation plans. The Omnibus Plan permits the grant of stock options, restricted stock, and other share-based awards valued in whole or in part by reference to, or otherwise based on, the Company’s common stock. Under the Omnibus Plan, a total of 2,141,000 shares of common stock were reserved for issuance to eligible employees, executive officers, independent contractors and outside directors. As of March 31, 2006, approximately 683,000 shares remain available for future issuance.

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

The Company did not grant any stock option awards during the three months ended March 31, 2006. The weighted average fair value of options granted during the three months ended March 31, 2005 was $11.21, which was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Three Months Ended March 31, 2005
Expected dividend yield	0%
Expected volatility	50%
Risk-free interest rate	4.1%
Expected option life (in years)	4

Stock option activity for the three months ended March 31, 2006 was as follows:

- 6 -

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

	Number of Options (in thousands)	Weighted Average Exercise Price (in dollars)	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2006	1,305	$ 2.15		
Granted:				
Exercise price = fair market value	—	—		
Exercise price < fair market value	—	—		
Exercised	(206)	$ 0.65		
Forfeited or expired	(37)	$ 5.01		
Outstanding at March 31, 2006	1,062	$ 2.34	7.4	$ 26.5
Exercisable at March 31, 2006	529	$ 1.79	7.2	$ 13.5

The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was $5.5 million and $0.4 million, respectively.

Restricted stock activity for the three months ended March 31, 2006 was as follows:

	Number of Shares (in thousands)	Weighted Average Grant-Date Fair Value (in dollars)
Restricted stock at January 1, 2006	1,279	$ 19.24
Granted	9	$ 25.70
Vested	(116)	$ 21.22
Forfeited	(52)	$ 17.14
Restricted stock at March 31, 2006	1,120	$ 19.19

The aggregate fair value of restricted stock that vested during the three months ended March 31, 2006 was $3.1 million. There was no restricted stock vesting during the three months ended March 31, 2005. On February 28, 2006, the Company's Compensation Committee approved a restricted stock award of approximately 510,000 shares to be granted to certain employees effective July 1, 2006. Although these restricted shares will not be issued to the grantees until July 1, 2006, a grant date has been established for measurement purposes under SFAS No. 123R. As such, the Company has begun to recognize the expense relating to this award effective February 28, 2006.

Total share-based compensation cost recognized for the three months ended March 31, 2006 and 2005 was $2.3 million and $1.4 million, respectively, with related income tax benefits of $0.9 million and $0.6 million, respectively. As of March 31, 2006, there was $33.8 million of total unrecognized compensation cost related to nonvested share-based awards. This cost is expected to be recognized over a weighted-average period of 3.4 years.

4. Business Combinations

Acquisition of MSGalt & Company, LLC

On April 3, 2006, the Company acquired substantially all of the assets of MSGalt & Company, LLC ("Galt"), a specialized advisory firm consisting of 25 consultants that designs and implements corporate-wide programs to improve shareholder returns, for $20.4 million. The Company financed this acquisition with cash on hand and borrowings of $6.5 million under the Company's bank credit agreement in the second quarter of 2006. Additional purchase consideration may be payable if specific performance targets are met over a four-year period. Such amounts will be recorded as an adjustment to goodwill if payable. Also, additional payments may be made based on the amount of revenues the Company receives from referrals made by Galt employees over a four-year period. Such

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

amounts will be recorded as an expense if payable. The acquisition will be accounted for under the purchase method of accounting. It was consummated on April 3, 2006 and the results of operations of Galt will be included within the Operational Consulting segment beginning on that date.

Based on a preliminary third-party valuation that is subject to refinement, the identifiable intangible assets that were acquired totaled approximately $4.6 million and have an estimated weighted average useful life of 20.2 months, which consisted of customer contracts totaling $1.8 million (3.2 months weighted average useful life), customer relationships totaling $1.5 million (6.1 months weighted average useful life), and non-competition agreements totaling $1.3 million (60.0 months weighted average useful life). Additionally, the Company will record approximately $15.8 million of goodwill, which the Company intends to deduct for income tax purposes.

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

The identifiable intangible assets that were acquired consisted of customer contracts of $1.9 million (8.4 months weighted average useful life) and customer relationships of $0.7 million (15.1 months weighted average useful life). Amortization expense relating to customer contracts is classified as a component of total direct costs on the Company's consolidated statement of income while amortization expense relating to customer relationships is classified as a component of operating expenses. The Company assigned relatively short lives to the customer contracts and customer relationships due to the short-term nature of the services and relationships provided under these contracts, which primarily consisted of interim management services. Additionally, the Company recorded $14.6 million of goodwill, which the Company intends to deduct for income tax purposes.

Purchase Price Allocations
The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisitions. The Company is in the process of obtaining a third-party valuation of certain intangible assets relating to the Galt acquisition; thus, the allocation of the purchase price is subject to refinement.

Assets Acquired:	S&W May 9, 2005	Galt April 3, 2006
Current assets	$ 2,291	$ —
Equipment	16	11
Intangible assets	2,600	4,600
Goodwill	14,637	15,776
	19,544	20,387
Liabilities Assumed:		

Current liabilities		2,307		—
Net Assets Acquired	$	17,237	$	20,387

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

Pro Forma Financial Data

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

	Historical Huron and Historical S&W		Historical Huron and Historical Galt	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2006 Actual	2005 Pro forma	2006 Pro forma	2005 Pro forma
Revenues, net of reimbursable expenses	$ 62,187	$ 52,706	$ 66,256	$ 49,864
Operating income	$ 9,673	$ 9,036	$ 9,679	$ 7,645
Income before provision for income taxes	$ 9,905	$ 9,178	$ 9,721	$ 7,685
Net income	$ 5,596	$ 5,191	$ 5,487	$ 4,408
Earnings per share:				
Basic	$ 0.35	$ 0.33	$ 0.34	$ 0.28
Diluted	$ 0.33	$ 0.31	$ 0.32	$ 0.26

5. Goodwill and Intangible Assets

The carrying amount of goodwill at both March 31, 2006 and December 31, 2005 was $14.6 million, which resulted from the acquisition of S&W as described in note 4 above, and has been assigned to the Company's segments as follows:

Financial Consulting	$ 11,739
Operational Consulting	2,898
Total	$ 14,637

Intangible assets consisted of the following:

	March 31, 2006		December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer contracts	$ 1,900	$ 1,900	$ 1,900	$ 1,848
Customer relationships	700	498	700	359
Technology	475	48	475	24
Total	$ 3,075	$ 2,446	$ 3,075	$ 2,231

During 2005, in connection with the hiring of a managing director, the Company purchased technology valued at $0.5 million, which is being amortized over an estimated useful life of 5.0 years and is classified as a component of total direct costs.

In connection with the Galt acquisition described in note 4 above, the Company will record approximately $15.8 million of goodwill and $4.6 million of intangible assets in the second quarter of 2006.

Intangible assets amortization expense was $0.2 million for the three months ended March 31, 2006. After recognition of the intangible assets acquired related to the acquisition of Galt, estimated intangible assets amortization expense is $2.5 million for 2006, $1.9 million for 2007, $0.4 million for each of 2008 and 2009,

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

$0.3 million for 2010 and $0.1 million for 2011. These amounts are subject to change based on the finalization of the purchase price allocation relating to the acquisition of Galt.

6. Property and Equipment

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

	March 31, 2006	December 31, 2005
Computers, related equipment and software	$ 10,215	$ 9,747
Furniture and fixtures	3,939	3,721
Leasehold improvements	7,979	6,122
Assets under capital lease	409	409
Assets under construction	5,941	1,229
Property and equipment	28,483	21,228
Accumulated depreciation and amortization	(9,224)	(8,066)
Property and equipment, net	$ 19,259	$ 13,162

7. Earnings Per Share

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

	Three Months Ended March 31,	
	2006	2005
Net income	$ 5,596	$ 4,827
Weighted average common shares outstanding - basic	16,077	15,547
Weighted average common stock equivalents	918	1,130