

Huron Consulting Group Inc.  
Form 10-K  
February 23, 2010  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10 K**

(Mark One)

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

For the fiscal year ended December 31, 2009

OR

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

Commission file number: 000-50976

**HURON CONSULTING GROUP INC.**

(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

01-0666114  
(I.R.S. Employer  
Identification Number)

**550 West Van Buren Street**

**Chicago, Illinois 60607**

(Address of principal executive offices and zip code)

(312) 583-8700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                      | Name of each exchange on which registered                          |
|--|--|
| Common Stock, par value \$0.01 per share | The NASDAQ Stock Market, Inc.<br><br>(NASDAQ Global Select Market) |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$928,000,000.

As of February 15, 2010, 21,672,811 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

### Documents Incorporated By Reference

Portions of the registrant's definitive Proxy Statement to be filed with Securities and Exchange Commission within 120 days after the end of its fiscal year are incorporated by reference into Part III.

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**HURON CONSULTING GROUP INC.**

ANNUAL REPORT ON FORM 10-K

FOR FISCAL YEAR ENDED DECEMBER 31, 2009

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**FORWARD-LOOKING STATEMENTS**

In this annual report on Form 10-K, 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 annual report on Form 10-K, including the information incorporated by reference herein, that are not historical in nature, including those concerning the Company's current expectations about its future results, 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," "plans," "anticipates," "assumes," "can," "considers," "could," "might," "predicts," "seeks," "would," "believes," "estimates" or "continues." Risks, uncertainties and assumptions that could impact the Company's forward-looking statements relate, among other things, to (i) the restatement, (ii) the Securities and Exchange Commission ("SEC") investigation and related Company inquiry with respect to the restatement and the related purported private shareholder class action lawsuits, since consolidated, and derivative lawsuits, (iii) the SEC investigation and related Company inquiry into the allocation of time within a certain practice group, (iv) the United States Attorney's Office ("USAO") for the Northern District of Illinois' request for certain documents, and (v) the cost reduction program implemented in the third quarter of 2009. In addition, these forward-looking statements reflect our current expectation about our future results, levels of activity, performance, or achievements, including, without limitation, that our business continues to grow at the current expectations with respect to, among other factors, utilization rates, billing rates, and the number of revenue-generating professionals; that we are able to expand our service offerings; that we successfully integrate the businesses we acquire; and that existing market conditions, including those in the credit markets, do not continue to deteriorate substantially. These statements involve known and unknown risks, uncertainties and other factors, including, among others, those described under Item 1A. Risk Factors, 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.

**PART I**

**ITEM 1. BUSINESS.**

**OVERVIEW**

We are a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, comply with complex regulations, resolve disputes, recover from distress, leverage technology, and stimulate growth. We team with our clients to deliver sustainable and measurable results. Many of our highly experienced professionals have master's degrees in business or healthcare administration, doctorates in economics, are certified public accountants, or are accredited valuation specialists and forensic accountants. Our professionals employ their expertise in healthcare administration, accounting, finance, economics and operations to provide our clients with specialized analyses and customized advice and solutions that are tailored to address each client's particular challenges and opportunities. We provide consulting services to a wide variety of both financially sound and distressed organizations, including leading academic institutions, healthcare organizations, Fortune 500 companies, medium-sized businesses, and the law firms that represent these various organizations.

Huron was formed in March 2002 and commenced operations in May 2002. We were founded by a core group of experienced financial and operational consultants that consisted primarily of former Arthur Andersen LLP partners and professionals with equity sponsorship from a group

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of investors led by Lake Capital Management LLC. In October 2004, we completed our initial public offering and became a publicly traded company.

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During the years ended December 31, 2008 and 2007, we completed the following acquisitions:

- In July 2008, we acquired Stockamp & Associates, Inc. ( Stockamp ), a management consulting firm specializing in helping high-performing hospitals and health systems optimize their financial and operational performance. With the acquisition of Stockamp, we expanded our presence in the hospital consulting market and are better positioned to serve multiple segments of the healthcare industry, including major health systems, academic medical centers and community hospitals.
- In July 2007, we acquired Callaway Partners, LLC ( Callaway ), a professional services firm that specializes in finance and accounting projects, financial reporting, internal audit and controls, and corporate tax solutions. With Callaway's extensive senior consultant and project management skills, along with its variable, on-demand workforce, we are better positioned to assist our clients with their accounting and corporate compliance challenges.
- In January 2007, we acquired Wellspring Partners LTD ( Wellspring ), a management consulting firm specializing in integrated performance improvement services for hospitals and health systems. With the acquisition of Wellspring, we expanded our national presence in the healthcare provider sector and now provide a full complement of services to a wide spectrum of hospitals and multi-hospital systems.
- Also in January 2007, we acquired Glass & Associates, Inc. ( Glass ), a turnaround and restructuring consulting firm that provides advice and leadership to troubled businesses in the United States and Europe. With the acquisition of Glass, we expanded our position in the consulting and restructuring marketplace, as well as expanded our interim management capabilities to distressed companies in industries beyond healthcare.

We have grown significantly since we commenced operations, increasing the number of our full-time professionals from 249 as of May 31, 2002 to 1,945 as of December 31, 2009, through hiring and acquisitions of complementary businesses. We have hired experienced professionals from a variety of organizations, including the four largest public accounting firms, referred to as the Big Four, and other consulting firms. As of December 31, 2009, we had 141 managing directors who have revenue-generating responsibilities. These individuals have an average of 25 years of business experience. In addition to our full-time employees, we have a roster of consultants, contract reviewers, and other independent contractors who supplement our full-time revenue-generating professionals on an as-needed basis. In addition to our headquarters in Chicago, Illinois, we have other domestic and international offices, including those located in the following major metropolitan cities: Atlanta, Georgia; Boston, Massachusetts; Houston, Texas; Los Angeles, California; New York City, New York; Portland, Oregon; San Francisco, California; Tokyo, Japan; and Washington D.C. We also have seven document review centers located in Chicago, Illinois; Houston, Texas; Miramar, Florida; Morrisville, North Carolina; New York City, New York; Charlotte, South Carolina; and Washington D.C, totaling approximately 1,000 workstations.

In December 2009, our Board of Directors approved a plan to divest two businesses within the Corporate Consulting and Accounting and Financial Consulting operating segments. As part of the strategy to focus on our core businesses, we have committed to a plan to sell the portion of the international operations that include the office and respective operations in Japan ( Japan ), which is a component of both the Accounting and Financial Consulting and Corporate Consulting segments. Additionally, on December 31, 2009 we completed the sale of MS Galt & Company LLC ( Galt ), a strategy business within the Corporate Consulting segment which was acquired in April 2006, back to its three principals. As a result of these actions, the operating results of Japan and Galt are reported as discontinued operations for 2009. All other operations of the business are considered continuing operations. See note 4. Discontinued Operations under Part II Item 8. Financial Statements and Supplementary Data for additional information.

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### OUR SERVICES

We are a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, comply with complex regulations, resolve disputes, recover from distress, leverage technology, and stimulate growth. We team with our clients to deliver sustainable and measurable results.

We provide our services through four operating segments: Health and Education Consulting, Accounting and Financial Consulting, Legal Consulting and Corporate Consulting. For the year ended December 31, 2009, we derived 59.5%, 15.8%, 18.3% and 6.4% of our revenues from continuing operations from Health and Education Consulting, Accounting and Financial Consulting, Legal Consulting, and Corporate Consulting, respectively. Effective January 1, 2010, we have reorganized our practice areas and service lines to better align ourselves to meet market demands and serve our clients. Under our new organizational structure, we will have three operating segments: Health and Education Consulting, Legal Consulting and Financial Consulting. Financial Consulting is the combination of our previously named Accounting and Financial Consulting and Corporate Consulting segments discussed above. The Financial Consulting segment practices primarily include the restructuring and turnaround, disputes and investigations, accounting advisory and utilities service offerings. The Health and Education Consulting and Legal Consulting segments remain unchanged.

For further financial information on our segment results, see Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and note 20. Segment Information under Part II Item 8. Financial Statements and Supplementary Data .

#### Health and Education Consulting

Our Health and Education Consulting segment provides consulting services to hospitals, health systems, physicians, managed care organizations, academic medical centers, colleges, universities, and pharmaceutical and medical device manufacturers. This segment's professionals develop and implement solutions to help clients address financial management, strategy, operational and organizational effectiveness, research administration, and regulatory compliance. This segment also provides consulting services related to hospital or healthcare organization performance improvement, revenue cycle improvement, turnarounds, merger or affiliation strategies, labor productivity, non-labor cost management, information technology, patient flow improvement, physician practice management, interim management, clinical quality and medical management, and governance and board development. This segment's practices and the services they offer include:

- **Healthcare.** Our healthcare practice provides integrated performance solutions for hospitals, health systems and academic medical centers. We partner with clients to deliver improvements to the bottom line, more efficient and effective operations, increased revenues, patient flow improvements, reductions in labor and non-labor costs, increased patient and employee satisfaction, improved quality of care, enhanced leadership and governance, compliance with legislations and regulations, and improved utilization and efficiency of information technology investments.
- **Higher education.** Our higher education professionals have extensive industry knowledge and experience working with institutions on mission-critical business issues relating to the financial, operational, and regulatory aspects of higher education to develop and implement the most effective solutions. We provide comprehensive and customized service offerings in every aspect of higher education and healthcare administration to improve business performance across the entire organization. We serve research universities, academic medical centers, colleges and universities, research institutions, and international organizations. Our primary service areas include financial management and strategy, resource optimization, strategic sourcing and procurement transformation, performance improvement, interim staffing support,



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information technology planning and integration, risk management and regulatory compliance, research administration, and global health and education.

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- **Life Sciences.** Our life sciences practice works with organizations to optimize performance, improve operations, mitigate risk, manage compliance, and support counsel in regulatory investigations. Our services to pharmaceutical and medical device companies include government price reporting and commercial contracting, corporate integrity agreements, medical affairs and clinical activities, regulatory and compliance services, off-label communication, sales and marketing compliance, and state reporting and aggregate spend. In addition this practice helps clients assess and enhance their compliance and quality programs by conducting investigations and compliance effectiveness assessments, and providing expert testimony, compliance infrastructure redesign, and billing and coding compliance assessments. This practice also specializes in clinical research operational assessments, including clinical research billing and human research protections compliance, conflicts of interest, and other related research services.

## **Accounting and Financial Consulting**

Our Accounting and Financial Consulting segment assists corporations with complex accounting and financial reporting matters, financial analysis in business disputes, international arbitration and litigation, as well as valuation analysis related to business acquisitions. In addition, the Accounting and Financial Consulting segment also provides experienced project leadership and consultants with a variety of financial and accounting credentials and prior corporate experience on an as-needed basis to assist clients with finance and accounting projects and other corporate matters. This segment is comprised of certified public accountants, economists, certified fraud examiners, chartered financial analysts and valuation experts who serve attorneys and corporations as expert witnesses and consultants in connection with business disputes, as well as in regulatory or internal investigations. This segment's practices and the services they offer include:

- **Disputes and forensic accounting.** Our disputes and forensic accounting practice provides financial and economic analyses to support law firms and corporations in connection with business disputes, litigation, international arbitration, tax controversies, and regulatory or internal investigations. We have extensive experience in the areas of financial investigations and forensic accounting, including matters involving the SEC, other regulatory inquiries and investigations, financial restatements, and special accounting projects. We provide specialized accounting, economic and statistical services to gather and analyze voluminous financial data and reconstruct complex transactions and events.
- **Economic consulting.** Our economic consulting practice works with clients to provide economic and statistical analyses in situations that arise in connection with litigation, regulatory hearings, complex transactions, bankruptcy, and public policy issues. Our economic consulting group also provides economic-value-driven strategic advice that combines the highly complementary disciplines of economics, accounting, and finance. Our team includes consultants with doctorates in economics and leading academics who perform event studies, sales and claims forecasting, economic damages calculations, policy analysis, and compliance studies.
- **Accounting and finance advisory.** Our accounting and finance advisory practice assists corporations with their accounting and finance needs in the areas of accounting and finance operations support, process improvement, bankruptcies, mergers, acquisitions and divestures, shared services, financial restatements, financial services, investigations, and financial reporting relating to SEC reporting matters. We provide a comprehensive range of finance and accounting services to both public and private sector companies with a focus on flexibility and responsiveness, bringing the methodologies, tools and experience needed to expertly provide optimal solutions across a broad spectrum of needs.
- **Valuation.** Our valuation practice delivers expert valuation analyses to clients and their advisors. We perform valuations of businesses, financial interests, intellectual property, real property, machinery and equipment, and other tangible and intangible assets. Our valuation group typically supports client needs in the areas of transactions, litigation, disputes and bankruptcies.

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### Legal Consulting

Our Legal Consulting segment provides guidance and business services to address the challenges that confront today's legal organizations. These services add value to corporate law departments, law firms, and government agencies by helping to reduce legal spending, enhance client service delivery, and increase operational effectiveness. This segment provides measurable results in the areas of digital evidence and discovery services, document review, law firm management services, records management, and strategic and operational improvements. Included in this segment's offerings is V3locity®, a per gigabyte fixed price e-discovery service providing data and document processing, hosting, review and production. This segment's practices and the services they offer include:

- **Legal business consulting.** Our legal business consulting practice helps both in-house legal departments and outside counsel enhance the quality of legal services while reducing costs by more efficiently aligning strategy, people, processes, and technology. We provide strategic advice to help legal departments and law firms improve their organizational design and business processes, and to help management in their use of outside counsel. We also have extensive experience in selecting, customizing, and successfully rolling out matter management systems and electronic billing systems that help legal departments track and manage lawsuits and other legal matters. These systems are powerful tools for managing budgets, spending, and resources. We provide similar services for contract management systems, document management systems and patent management applications.
- **Discovery and records management.** We work with corporations and law firms to provide solutions to enhance their discovery process management and electronic discovery needs. One area of emphasis is helping clients choose and implement technology solutions that improve legal department operations, including litigation preparedness and litigation holds. We provide a full array of digital evidence, discovery, and records management services that include discovery process execution, electronic discovery services, computer forensics, data management, document processing, document review, records program development, records improvement planning and process, and program management, all aimed at reducing costs, coordinating matters and people, streamlining processes and reducing risks. With our V3locity® offering, we provide comprehensive e-discovery services, including processing, hosting, review and production, for legal matters using a per gigabyte page fixed price model. With our state-of-the-art facilities, we blend technology and an integrated process to ensure a work product that outperforms more traditional methods.

### Corporate Consulting

Our Corporate Consulting segment leads clients through various stages of transformation that result in measurable and sustainable performance improvement. This segment works with clients to solve complex business problems and implements strategies and solutions to effectively address and manage stagnant or declining stock price, acquisitions and divestitures, process inefficiency, third-party contracting difficulties, lack of or misaligned performance measures, margin and cost pressures, performance issues, bank defaults, covenant violations, and liquidity issues. This segment's practices and the services they offer include:

- **Restructuring and turnaround.** Our restructuring and turnaround practice provides consulting assistance to financially distressed companies, creditor constituencies, and other stakeholders in connection with out-of-court restructurings and bankruptcy proceedings. For companies in financial distress, we work with management to assess the viability of their business, to develop and implement a turnaround plan to improve cash flow, and to implement a debt-restructuring plan to improve the balance sheet. In some instances, we serve in interim management roles. When out-of-court solutions are not achievable, we assist clients in preparing for Chapter 11 bankruptcy filings and with all aspects of the bankruptcy process by gathering, analyzing, and presenting financial and business information needed to achieve successful reorganizations. We also provide claims management services to help companies process and analyze complex and voluminous claims filed in bankruptcies and related litigation matters.



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**Utilities.** Our utilities practice assists utility companies in addressing the full range of complex issues they face affecting the cost, quality, and reliability of their services. We provide rate case, financial and accounting, and operational consulting services to electric, gas, water, and telecommunications entities. Our professionals help utility clients define and implement a business strategy, improve margins, strategize, provide expert testimony, manage rate cases, achieve improved operating performance, and design and implement effective governance, compliance, and risk management programs.

## **OUR CLIENTS AND INDUSTRIES**

We provide consulting services to a wide variety of both financially sound and distressed organizations, including leading academic institutions, healthcare organizations, Fortune 500 companies, medium-sized businesses, and the law firms that represent these various organizations. Since commencing operations in May 2002, we have conducted over 9,000 engagements for over 3,600 clients, and we have worked on engagements with 49 of the 50 largest U.S. law firms listed in The American Lawyer 2009 Am Law 100. Our top ten clients represented approximately 28.6%, 21.9% and 27.8% of our revenues from continuing operations in the years ended December 31, 2009, 2008 and 2007, respectively. No single client accounted for more than 10% of our revenues from continuing operations in 2009 or 2008. One client accounted for 10.3% of our revenues from continuing operations in 2007.

Our clients are in a broad array of industries, including healthcare, education, professional services, pharmaceutical, technology, transportation services, telecommunications, financial services, electronics, consumer products, energy and utilities and industrial manufacturing. We believe organizations will continue to face complex challenges, given the current economic environment. Concurrently, we believe greater competition and regulation inclusive of potential healthcare reform will present significant operational and financial challenges for organizations. Many organizations are finding themselves in financial distress and are responding to these challenges by restructuring and reorganizing their businesses and capital structures, while financially healthy organizations are striving to maintain that position, capitalize on opportunities by improving operations, reducing costs, and enhancing revenues. Many organizations have limited dedicated resources to respond effectively to the challenges and opportunities that exist today. Consequently, we believe these organizations will increasingly seek to augment their internal resources with experienced independent consultants such as us.

## **EMPLOYEES**

Our ability to bring the right expertise together to address client issues requires a willingness to work and think outside the bounds of a single practice or specialty. Our success depends on our ability to attract and retain highly talented professionals by creating a work environment where both individuals and teams thrive and individuals are rewarded not only for their own contributions but also for the success of our organization as a whole. To accomplish those goals and recognize performance, we have adopted a comprehensive rewards program incorporating compensation, training and development opportunities, performance management and special recognition plans that motivates individual performance and promotes teamwork.

As of December 31, 2009, we had 1,945 full-time employees, including 141 revenue-generating managing directors and 20 non-revenue-generating managing directors, as well as other directors, managers, associates, analysts and assistants. Our revenue-generating managing directors serve clients as advisors and engagement team leaders, originate revenue through new and existing client relationships, and work to strengthen our intellectual capital, develop our people and enhance our reputation. Our revenue-generating directors and managers manage day-to-day client relationships and oversee the delivery and overall quality of our work product. Our revenue-generating associates and analysts gather and organize data, conduct detailed analyses and prepare presentations that synthesize and distill information to support recommendations we



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deliver to clients. Our non-revenue-generating professionals include our senior management team, business developers, facilities, finance, human resources, information technology, legal and marketing personnel.

In addition to our full-time employees described above, we have a roster of consultants, contract reviewers, and other independent contractors who supplement our full-time revenue-generating professionals on an as-needed basis. These individuals, many of whom have a variety of legal, financial and accounting credentials along with prior corporate experience, work variable schedules and are readily available to meet our clients needs. Utilizing these independent contractors and project consultants allows us to maintain a pool of talent with a variable cost structure and enables us to adapt quickly to market demand. We utilize these variable resources extensively, particularly within our Accounting and Financial Consulting and Legal Consulting segments.

We assimilate and support our employees in their career progression through established training and development programs. We have structured orientation and training programs for new analysts, milestone programs to help recently promoted employees quickly become effective in their new roles, and opportunities for self-directed learning, including on-line training in technical, compliance, coaching, interpersonal skills and consulting courses. We also support the pursuit and ongoing maintenance of many certifications as well as advanced degrees. Employees are assigned internal performance coaches to establish development goals that include identification of opportunities for professional development, formal training, and certifications.

Our compensation plan includes competitive base salary, incentives and benefits. Under our performance management plan, directors, managers, associates and analysts set goals each year with a performance coach. These goals are aligned with our business goals as well as individual interests and development needs. Managing directors set goals with their practice leader using a balanced scorecard. The incentive plan balances our value of teamwork with recognition of individual performance, and incentive compensation is tied to both team and individual performance. Incentives for managing directors are based on their individual performance and their contribution to their practice and to our business as a whole. Funding of the incentive pool is based on our achievement of annual financial goals and each practice's achievement of its financial goals. In 2010 we have implemented a new managing director compensation plan to attract and retain senior practitioners. It incorporates targeted compensation levels based on performance and includes equity as a core component of compensation for every managing director to encourage retention, align the interests of our managing directors with shareholders and help managing directors build wealth over time. The new managing director compensation plan is integrated with our performance management plan and continues to rely on a balanced scorecard to set performance expectations and accountabilities.

## **BUSINESS DEVELOPMENT AND MARKETING**

Our business development activities are aimed to develop relationships and build a strong brand reputation with key sources of business and referrals, especially hospital administrators, top-tier law firms and the offices of the chief executive officer, chief financial officer, and general counsel of organizations. We believe that excellent service delivery to clients is critical to building and maintaining relationships and our brand reputation, and we emphasize the importance of client service to all of our employees.

We generate most of our new business opportunities through relationships that our managing directors have with individuals working in corporations, academic institutions, healthcare organizations, and top-tier law firms. We also view cross-selling as a key component in building our business. Often, the client relationship of a managing director in one practice leads to opportunities in another practice. All of our managing directors understand their role in ongoing relationship and business development, which is reinforced through our compensation and incentive programs. We actively seek to identify new business opportunities, and frequently receive referrals and repeat business from past and current clients and from the law firms with which we have worked. In addition, to complement the business development efforts of our managing

directors, we have



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experienced business developers who are focused exclusively on developing client relationships and generating new business through their extensive network of contacts.

We also host, participate in and sponsor conferences that facilitate client development opportunities, promote brand recognition, and showcase our expertise in the industry. For example, during 2009, we hosted such events as multiple webinars on American Recovery and Reinvestment Act, Professional Education for the Utility Industry courses, Enhancing the Effectiveness of Middle Market CEOs and Directors roundtable, Cost Savings in E-Discovery meetings, Is there a Nuclear Renaissance? webinar, Effort Certification and Reporting Technology User Meeting, Healthcare Finance Industry Reception, A Medical Necessity: Strategies for Successful Hospital/Physician Alignment seminar, as well as numerous other industry webinars and client events. Additionally, we participated in or sponsored numerous conferences for organizations such as National Council of University Research Administrators (NCURA), Association of Corporate Counsel (ACC), National Bar Association (NBA), Turnaround Management Association (TMA), Health Care Compliance Association (HCCA), Financial Executive Institute (FEI), Center for Business Intelligence (CBI), Association for Corporate Growth (ACG), Edison Electric Institute (EEI) and Healthcare Financial Management Association (HFMA). These events provide a forum to build and strengthen client relationships, as well as to stay abreast of industry trends and developments.

We have a centralized marketing department with marketing professionals assigned to each of our practices. These professionals coordinate traditional marketing programs, such as participation in industry events, sponsorship of conferences, and publication of articles in industry publications to actively promote our name and capabilities. The marketing department also manages the content delivery on Huron's website, develops collateral materials, performs research and provides database management to support sales efforts.

## **COMPETITION**

The consulting services industry is extremely competitive, highly fragmented and subject to rapid change. The industry includes a large number of participants with a variety of skills and industry expertise, including other business operations and financial consulting firms, general management consulting firms, the consulting practices of major accounting firms, technical and economic advisory firms, regional and specialty consulting firms and the internal professional resources of organizations. We compete with a large number of service providers in all of our segments. Our competitors often vary depending on the particular practice area. In addition, we also expect to continue to face competition from new entrants because the barriers to entry into consulting services are relatively low.

We believe the principal competitive factors in our market include firm and consultant reputations, client and law firm relationships and referrals, the ability to attract and retain top professionals, the ability to manage engagements effectively and the ability to be responsive and provide high quality services. There is also competition on price, although to a lesser extent due to the critical nature of many of the issues that the types of services we offer address. Many of our competitors have a greater geographic footprint, including a broader international presence, and name recognition, as well as have significantly greater personnel, financial, technical and marketing resources than we do. We believe that our experience, reputation, industry focus, and a broad range and balanced portfolio of service offerings enable us to compete favorably and effectively in the consulting marketplace.

## **AVAILABLE INFORMATION**

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Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge on our website, [www.huronconsultinggroup.com](http://www.huronconsultinggroup.com), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

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**ITEM 1A. RISK FACTORS.**

The following discussion of risk factors may be important to understanding the statements in this annual report on Form 10-K or elsewhere. The following information should be read in conjunction with Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes in this annual report on Form 10-K. Discussions about the important operational risks that our business encounters can be found in Part II Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations .

**On July 31, 2009, we announced our intention to restate our financial statements for the years ended 2006, 2007 and 2008 and the first quarter of 2009. Concurrently, we announced certain senior management changes. Following such announcements, the price of our common stock declined significantly. As a result of such decline, we engaged in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009 and recorded a \$106.0 million non-cash pretax charge for the impairment of goodwill. The reputational issues raised by the foregoing, the goodwill impairment charge arising out of the decline in our stock price and the potential impact of the SEC investigations into the restatement and the allocation of time within a certain practice group, the USAO's request for certain documents and the purported private shareholder class action litigation and derivative litigation with respect to the restatement could have a material adverse effect on our business, prospects, cash flow, overall liquidity, results of operations or financial condition.**

We restated certain of our previously-issued financial statements to correct our accounting for certain acquisition-related payments received by the selling shareholders of specific businesses we acquired that were subsequently redistributed by the selling shareholders among themselves and to other select Company employees. Concurrently with the announcement of the restatement, we announced that our then Chairman and Chief Executive Officer had resigned and that our then Chief Financial Officer had been replaced and would be leaving the Company and our then Chief Accounting Officer would be leaving the Company. A new Non-Executive Chairman was elected, and a new Chief Executive Officer and Chief Financial Officer were appointed, effective July 31, 2009. The restatement and these changes in our senior management have raised reputational issues for our businesses, in particular for our Accounting and Financial Consulting segment.

The damages to our business that may arise out of these reputational issues heighten the risks described herein and specifically may adversely impact our ability to:

- retain our senior management team, our practice leaders and our other managing directors;
- hire and retain talented people in an industry where there is great competition for talent;
- maintain our existing business practices and revenues given our clients' ability to terminate their engagement agreements with little or no notice and without penalty;
- attract new business in the highly competitive consulting services industry; and
- continue our growth strategy by hiring individuals or groups of individuals and by acquiring complementary businesses.

Finally, the SEC has commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. The Company also conducted a separate inquiry with independent advisors and counsel, in response to the initial inquiry from the SEC, into the allocation of time within a certain practice group. In addition, as often happens in these circumstances, the USAO for the Northern District of Illinois has contacted our counsel and made a telephonic request for copies of certain documents that we previously provided to the SEC. Further, several purported private shareholder class action lawsuits, since consolidated, and derivative lawsuits have been filed in respect of the restatement. While we are fully cooperating with the SEC in its investigations with respect to the restatement and the allocation of time

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within a certain practice group, have voluntarily provided to the USAO the documents requested by the USAO and intend to vigorously defend the lawsuits in respect of the restatement, such investigations, requests and lawsuits subject us to a number of additional risks, including:

- the diversion of management's time, attention and resources from managing and marketing our company;
- increased costs and expenses to respond to the SEC's investigations and any requests for information from the USAO and to defend the purported private shareholder class action lawsuit and derivative lawsuits;
- additional damage to our reputation that may further heighten the risks described above; and
- the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts resulting from actions or findings by the SEC or the USAO or pursuant to rulings, orders or judgments by the courts with jurisdiction over the purported private shareholder class action lawsuit and derivative lawsuits.

Given the uncertain nature of the SEC investigations with respect to the restatement and the allocation of time within a certain practice group, the USAO's request for certain documents and the purported private shareholder class action lawsuit and derivative lawsuits in respect of the restatement (collectively, the restatement matters), and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the restatement matters, we are unable to predict the ultimate outcome of the restatement matters, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the restatement matters. Any such liability could be material.

The failure to successfully address any one or more of these risks could have a material adverse effect on our business, prospects, cash flow, overall liquidity, results of operations or financial condition.

### **An inability to retain our senior management team and other managing directors would be detrimental to the success of our business.**

We rely heavily on our senior management team, our practice leaders, and other managing directors; and our ability to retain them is particularly important to our future success. Given the highly specialized nature of our services, the senior management team must have a thorough understanding of our service offerings as well as the skills and experience necessary to manage an organization consisting of a diverse group of professionals. In addition, we rely on our senior management team and other managing directors to generate and market our business. Further, our senior management's and other managing directors' personal reputations and relationships with our clients are a critical element in obtaining and maintaining client engagements. Although we enter into non-solicitation agreements with our senior management team and other managing directors, we generally do not enter into non-competition agreements. Accordingly, members of our senior management team and our other managing directors are not contractually prohibited from leaving or joining one of our competitors, and some of our clients could choose to use the services of that competitor instead of our services. If one or more members of our senior management team or our other managing directors leave and we cannot replace them with a suitable candidate quickly, we could experience difficulty in securing and successfully completing engagements and managing our business properly, which could harm our business prospects and results of operations.

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**If shareholders do not approve additional shares for issuance under our 2004 Omnibus Stock Plan, we may not have sufficient shares to implement the managing director compensation plan and attract and retain senior talent.**

The Company intends to seek shareholder approval at the upcoming annual meeting for the issuance of additional equity shares under its 2004 Omnibus Stock Plan to satisfy the equity component of the executive

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and management compensation plans. We have granted or committed to grant our current allocation of equity under the 2004 Omnibus Stock Plan in the normal course of granting annual awards and pursuant to retention packages given to key employees throughout the Company in the wake of our financial restatement. We do not currently have enough shares available for issuance under the 2004 Omnibus Stock Plan to make equity grants to executive officers and managing directors in 2011 and we may not have sufficient shares to attract and retain new senior talent. Failure to obtain the requisite shareholder approval for the additional equity under the 2004 Omnibus Stock Plan would prevent us from realizing the full retention benefits of the new managing director compensation plan and could hinder our ability to attract and retain senior talent. If shareholders do not approve the issuance of additional shares, we will be required to significantly increase our cash expenditures related to compensation of senior talent.

### **Our inability to hire and retain talented people in an industry where there is great competition for talent could have a serious negative effect on our prospects and results of operations.**

Our business involves the delivery of professional services and is highly labor-intensive. Our success depends largely on our general ability to attract, develop, motivate and retain highly skilled professionals. Further, we must successfully maintain the right mix of professionals with relevant experience and skill sets as we continue to grow, as we expand into new service offerings, and as the market evolves. The loss of a significant number of our professionals, the inability to attract, hire, develop, train and retain additional skilled personnel, or not maintaining the right mix of professionals could have a serious negative effect on us, including our ability to manage, staff and successfully complete our existing engagements and obtain new engagements. Qualified professionals are in great demand, and we face significant competition for both senior and junior professionals with the requisite credentials and experience. Our principal competition for talent comes from other consulting firms, accounting firms and technical and economic advisory firms, as well as from organizations seeking to staff their internal professional positions. Many of these competitors may be able to offer significantly greater compensation and benefits or more attractive lifestyle choices, career paths or geographic locations than we do. Therefore, we may not be successful in attracting and retaining the skilled consultants we require to conduct and expand our operations successfully. Increasing competition for these revenue-generating professionals may also significantly increase our labor costs, which could negatively affect our margins and results of operations.

### **Additional hiring and business acquisitions could disrupt our operations, increase our costs or otherwise harm our business.**

Our business strategy is dependent in part upon our ability to grow by hiring individuals or groups of individuals and by acquiring complementary businesses. However, we may be unable to identify, hire, acquire or successfully integrate new employees and acquired businesses without substantial expense, delay or other operational or financial obstacles. Competition for future hiring and acquisition opportunities in our markets could increase the compensation we offer to potential employees or the prices we pay for businesses we wish to acquire. In addition, we may be unable to achieve the financial, operational and other benefits we anticipate from any hiring or acquisition, including those we have completed so far. Hiring additional employees or acquiring businesses could also involve a number of additional risks, including:

- the diversion of management's time, attention and resources from managing and marketing our company;
- the failure to retain key acquired personnel;
- potential impairment of existing relationships with our clients, such as client satisfaction or performance problems, whether as a result of integration or management difficulties or otherwise;

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- the need to compensate new employees while they wait for their restrictive covenants with other institutions to expire;
- the creation of conflicts of interest that require us to decline or resign from engagements that we otherwise could have accepted;



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- the potential need to raise significant amounts of capital to finance a transaction or the potential issuance of equity securities that could be dilutive to our existing stockholders;
- increased costs to improve, coordinate or integrate managerial, operational, financial and administrative systems;
- the usage of earn-outs based on the future performance of our business acquisitions may deter the acquired company from fully integrating into our existing business;
- a decision not to fully integrate an acquired business may lead to the perception of inequalities if different groups of employees are eligible for different benefits and incentives or are subject to different policies and programs;
- difficulties in integrating diverse backgrounds and experiences of consultants, including if we experience a transition period for newly hired consultants that results in a temporary drop in our utilization rates or margins; and
- the adverse short-term effects on reported operating results from the amortization or write-off of acquired goodwill and other intangible assets.

If we fail to successfully address these risks, our ability to compete may be impaired.

**If we are unable to manage the growth of our business successfully, we may not be able to sustain profitability.**

We have grown significantly since we commenced operations, increasing the number of our full-time professionals from 249 as of May 31, 2002 to 1,945 as of December 31, 2009. As we continue to increase the number of our employees, we may not be able to successfully manage a significantly larger workforce. Additionally, our considerable growth and the circumstances of the restatement has placed demands on our management and our internal systems, procedures and controls and will continue to do so in the future. To successfully manage growth and respond to the events described above, we must add administrative staff and periodically update and strengthen our operating, financial, accounting and other systems, procedures and controls, which will increase our costs and may adversely affect our gross profits and our ability to sustain profitability if we do not generate increased revenues to offset the costs. This need to augment our support infrastructure due to growth is compounded by our decision to become a public reporting company and the increased expense that has arisen in complying with existing and new regulatory requirements. As a public company, our information and control systems must enable us to prepare accurate and timely financial information and other required disclosures. If we discover deficiencies in our existing information and control systems that impede our ability to satisfy our reporting requirements, we must successfully implement improvements to those systems in an efficient and timely manner.

**Our international expansion could result in additional risks.**

We operate both domestically and internationally, including in the Middle East, Europe and Asia. Although historically our international operations have been limited, we intend to continue to expand internationally. Such expansion may result in additional risks that are not present domestically and which could adversely affect our business or our results of operations, including:

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- cultural and language differences;
- employment laws and rules and related social and cultural factors;
- currency fluctuations between the U.S. dollar and foreign currencies, which is harder to predict in the current adverse global economic climate;
- restrictions on the repatriation of earnings;
- potentially adverse tax consequences;

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- different regulatory requirements and other barriers to conducting business;
- different or less stable political and economic environments; and
- civil disturbances or other catastrophic events.

Further, conducting business abroad subjects us to increased regulatory compliance and oversight, in particular with respect to operations in the Middle East. A failure to comply with such regulations could result in substantial penalties assessed against the Company and our employees.

**Our obligations under the Credit Agreement are secured by a pledge of certain of the equity interests in our subsidiaries and a lien on substantially all of our assets and those of our subsidiary grantors. If we default on these obligations, our lenders may foreclose on our assets, including our pledged equity interest in our subsidiaries.**

On September 30, 2009, we entered into the Security Agreement in connection with our entry into the eighth amendment to the Revolving Credit and Term Loan Credit Agreement (the "Credit Agreement"). Pursuant to the Security Agreement and to secure our obligations under the Credit Agreement, we granted our lenders a first-priority lien, subject to permitted liens, on substantially all of the personal property assets that we and the subsidiary grantors own. This first-priority lien is in addition to the existing pledge (the "Equity Pledge") that we previously granted to our lenders of 100% of the voting stock or other equity interests in our domestic subsidiaries and 65% of the voting stock or other equity interests in our foreign subsidiaries. If we default on our obligations under the Credit Agreement, our lenders could accelerate our indebtedness and may be able to exercise their liens on the equity interests subject to the Equity Pledge and on their liens on substantially all of our assets and the assets of our subsidiary grantors, which would have a material adverse effect on our business, operations, financial condition and liquidity.

**Our substantial indebtedness and the current credit crisis could adversely affect our ability to raise additional capital to fund our operations and obligations, expose us to interest rate risk to the extent of our variable rate debt, and could adversely affect our financial results.**

At December 31, 2009, we had outstanding borrowings totaling \$219.0 million compared to \$280.0 million at December 31, 2008. Our substantial indebtedness could have meaningful consequences for us, including:

- exposing us to the risk of increased interest rates because our borrowings are at variable interest rates;
- requiring us to dedicate a larger portion of our cash from operations to service our indebtedness and thus reducing the level of cash for other purposes such as funding working capital, strategic acquisitions, capital expenditures, and other general corporate purposes;
- limiting our ability to obtain additional financing; and
- increasing our vulnerability to general adverse economic, industry, and competitive developments.

Additionally, if one or more of the banks in our bank syndicate suffers liquidity issues or becomes insolvent stemming from the current credit crisis and is unable to extend credit to us, we may experience negative consequences.

**Our intellectual property rights in our Huron Consulting Group name are important, and any inability to use that name could negatively impact our ability to build brand identity.**

We believe that establishing, maintaining and enhancing the Huron Consulting Group name is important to our business. We are, however, aware of a number of other companies that use names containing Huron. There could be potential trade name or service mark infringement claims brought against us by the users of these similar names and marks and those users may have trade name or service mark rights that are senior to ours. If another company were to successfully challenge our right to use our name, or if we were unable to

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prevent a competitor from using a name that is similar to our name, our ability to build brand identity could be negatively impacted.

**Our financial results could suffer if we are unable to achieve or maintain adequate utilization and suitable billing rates for our consultants.**

Our profitability depends to a large extent on the utilization and billing rates of our professionals. Utilization of our professionals is affected by a number of factors, including:

- the number and size of client engagements;
- the timing of the commencement, completion and termination of engagements, which in many cases is unpredictable;
- our ability to transition our consultants efficiently from completed engagements to new engagements;
- the hiring of additional consultants because there is generally a transition period for new consultants that results in a temporary drop in our utilization rate;
- unanticipated changes in the scope of client engagements;
- our ability to forecast demand for our services and thereby maintain an appropriate level of consultants; and
- conditions affecting the industries in which we practice as well as general economic conditions.

The billing rates of our consultants that we are able to charge are also affected by a number of factors, including:

- our clients' perception of our ability to add value through our services;
- the market demand for the services we provide;
- an increase in the number of clients in the government sector;
- introduction of new services by us or our competitors;

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- our competition and the pricing policies of our competitors; and
- the current adverse economic conditions and a potential prolonged or deepening recession.

If we are unable to achieve and maintain adequate overall utilization as well as maintain or increase the billing rates for our consultants, our financial results could materially suffer.

### **Expanding our service offerings or number of offices may not be profitable.**

We may choose to develop new service offerings or open new offices because of market opportunities or client demands. Developing new service offerings involves inherent risks, including:

- our inability to estimate demand for the new service offerings;
- competition from more established market participants;
- a lack of market understanding; and
- unanticipated expenses to recruit and hire qualified consultants and to market our new service offerings.

In addition, expanding into new geographic areas and expanding current service offerings is challenging and may require integrating new employees into our culture as well as assessing the demand in the applicable market. If we cannot manage the risks associated with new service offerings or new locations effectively, we are unlikely to be successful in these efforts, which could harm our ability to sustain profitability and our business prospects.

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**Our ability to maintain and attract new business depends upon our reputation, the professional reputation of our revenue-generating employees and the quality of our services.**

As a professional services firm, our ability to secure new engagements depends heavily upon our reputation and the individual reputations of our professionals. Any factor that diminishes our reputation or that of our employees, including not meeting client expectations or misconduct by our employees, could make it substantially more difficult for us to attract new engagements and clients. Similarly, because we obtain many of our new engagements from former or current clients or from referrals by those clients or by law firms that we have worked with in the past, any client that questions the quality of our work or that of our consultants could impair our ability to secure additional new engagements and clients.

**The consulting services industry is highly competitive, and we may not be able to compete effectively.**

The consulting services industry in which we operate includes a large number of participants and is intensely competitive. We face competition from other business operations and financial consulting firms, general management consulting firms, the consulting practices of major accounting firms, technical and economic advisory firms, regional and specialty consulting firms and the internal professional resources of organizations. In addition, because there are relatively low barriers to entry, we expect to continue to face additional competition from new entrants into the business operations and financial consulting industries. Many of our competitors have a greater national and international presence, as well as have significantly greater personnel, financial, technical and marketing resources. In addition, these competitors may generate greater revenues and have greater name recognition than we do. Our ability to compete also depends in part on the ability of our competitors to hire, retain and motivate skilled professionals, the price at which others offer comparable services and our competitors responsiveness to their clients. If we are unable to compete successfully with our existing competitors or with any new competitors, our financial results will be adversely affected.

**The profitability of our fixed-fee engagements with clients may not meet our expectations if we underestimate the cost of these engagements.**

When making proposals for fixed-fee engagements, we estimate the costs and timing for completing the engagements. These estimates reflect our best judgment regarding the efficiencies of our methodologies and consultants as we plan to deploy them on engagements. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-fee engagements, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable, which would have an adverse effect on our profit margin. For the years ended December 31, 2009, 2008, 2007, fixed-fee engagements represented 34.1%, 28.1% and 21.8%, respectively, of our revenues from continuing operations.

**Revenues from our performance-based engagements are difficult to predict, and the timing and extent of recovery of our costs is uncertain.**

We have engagement agreements under which our fees include a significant performance-based component. Performance-based fees are contingent on the achievement of specific measures, such as our clients meeting cost-saving or other contractually defined goals. The achievement of these contractually-defined goals is subject to acknowledgement by the client and is often impacted by factors outside of our control, such as the actions of the client or other third parties. Because performance-based fees are contingent, revenues on such engagements, which are recognized when all revenue recognition criteria are met, are not certain and the timing of receipt is difficult to predict and may not

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occur evenly throughout the year. As expected, due to Stockamp & Associates, Inc., a consulting firm that we acquired in the third quarter of 2008 and which has a large number of performance-based fee engagements, the percentage of performance-based fee engagements has increased, increasing the percentage of our revenues from continuing operations derived from performance-based fees to 13.8% for the year ended December 31, 2009,



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compared with 4.6% and 2.4% for the years ended December 31, 2008 and 2007, respectively. A greater number of performance-based fee arrangements may result in increased volatility in our working capital requirements and greater variations in our quarter-to-quarter results, which could affect the price of our common stock. In addition, an increase in the proportion of performance-based fee arrangements may temporarily offset the positive effect on our operating results from an increase in our utilization rate until the related revenues are recognized.

**A significant portion of our revenues is derived from a limited number of clients, and our engagement agreements, including those related to our largest clients, can be terminated by our clients with little or no notice and without penalty, which may cause our operating results to be unpredictable.**

As a consulting firm, we have derived, and expect to continue to derive, a significant portion of our revenues from a limited number of clients. Our ten largest clients accounted for approximately 28.6%, 21.9% and 27.8% of our revenues from continuing operations for the years ended December 31, 2009, 2008 and 2007, respectively. No single client accounted for more than 10% of our revenues from continuing operations in 2009 or 2008. One client accounted for 10.3% of our revenues from continuing operations in 2007. Our clients typically retain us on an engagement-by-engagement basis, rather than under fixed-term contracts; the volume of work performed for any particular client is likely to vary from year to year and a major client in one fiscal period may not require or decide not to use our services in any subsequent fiscal period. Moreover, a large portion of our new engagements comes from existing clients. Accordingly, the failure to obtain new large engagements or multiple engagements from existing or new clients could have a material adverse effect on the amount of revenues we generate.

In addition, almost all of our engagement agreements can be terminated by our clients with little or no notice and without penalty. For example, in engagements related to litigation, if the litigation were to be settled, our engagement for those services would no longer be necessary and, therefore, would be terminated. In client engagements that involve multiple engagements or stages, there is a risk that a client may choose not to retain us for additional stages of an engagement or that a client will cancel or delay additional planned engagements. For clients in bankruptcy, a bankruptcy court could elect not to retain our interim management consultants, terminate our retention, require us to reduce our fees for the duration of an engagement, or approve claims against fees earned by us prior to or after the bankruptcy filing. Terminations of engagements, cancellations of portions of the project plan, delays in the work schedule or reductions in fees could result from factors unrelated to our services. When engagements are terminated or reduced, we lose the associated future revenues, and we may not be able to recover associated costs or redeploy the affected employees in a timely manner to minimize the negative impact. In addition, our clients' ability to terminate engagements with little or no notice and without penalty makes it difficult to predict our operating results in any particular fiscal period.

**Conflicts of interest could preclude us from accepting engagements thereby causing decreased utilization and revenues.**

We provide services in connection with bankruptcy proceedings and litigation proceedings that usually involve sensitive client information and frequently are adversarial. In connection with bankruptcy proceedings, we are required by law to be disinterested and may not be able to provide multiple services to a particular client. In litigation we would generally be prohibited from performing services in the same litigation for the party adverse to our client. In addition, our engagement agreement with a client or other business reasons may preclude us from accepting engagements with our clients' competitors or adversaries. As we increase the size of our operations and the complement of consulting services, the number of conflict situations will continue to increase. Moreover, in many industries in which we provide services, there has been a continuing trend toward business consolidations and strategic alliances. These consolidations and alliances reduce the number of companies that may seek our services and increase the chances that we will be unable to accept new

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engagements as a result of conflicts of interest. If we are unable to accept new engagements for any reason, our consultants may become underutilized, which would adversely affect our revenues and results of operations in future periods.

### **Our engagements could result in professional liability, which could be very costly and hurt our reputation.**

Our engagements typically involve complex analyses and the exercise of professional judgment. As a result, we are subject to the risk of professional liability. If a client questions the quality of our work, the client could threaten or bring a lawsuit to recover damages or contest its obligation to pay our fees. Litigation alleging that we performed negligently or breached any other obligations to a client could expose us to significant legal liabilities and, regardless of outcome, is often very costly, could distract our management and could damage our reputation. We are not always able to include provisions in our engagement agreements that are designed to limit our exposure to legal claims relating to our services. Even if these limiting provisions are included in an engagement agreement, they may not protect us or may not be enforceable under some circumstances. In addition, we carry professional liability insurance to cover many of these types of claims, but the policy limits and the breadth of coverage may be inadequate to cover any particular claim or all claims plus the cost of legal defense. For example, we provide services on engagements in which the impact on a client may substantially exceed the limits of our errors and omissions insurance coverage. If we are found to have professional liability with respect to work performed on such an engagement, we may not have sufficient insurance to cover the entire liability.

### **As a holding company, we are totally dependent on distributions from our operating subsidiaries to pay dividends or other obligations and there may also be other restrictions on our ability to pay dividends in the future.**

We are a holding company with no business operations. Our only significant asset is the outstanding equity interests of our wholly-owned operating subsidiaries. As a result, we must rely on payments from our subsidiaries to meet our obligations. Accordingly, although we do not anticipate paying any dividends in the foreseeable future, our subsidiaries may not be able to generate sufficient cash flow to distribute funds to us in order to allow us to pay future dividends on, or make any distribution with respect to, our common stock. Our future credit facilities, other future debt obligations and statutory provisions may also limit our ability to pay dividends or make any distribution in respect of our common stock.

### **The nature of our services and the current economic environment make evaluating our business difficult.**

Although we have consistently generated positive earnings since we became a public company, except for the year ended December 31, 2009, we may not sustain profitability in the future. Additionally, the current instability in the global economy makes it even harder to predict our future operating results. To sustain profitability, we must:

- attract, integrate, retain and motivate highly qualified professionals;
- achieve and maintain adequate utilization and suitable billing rates for our revenue-generating professionals;

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- expand our existing relationships with our clients and identify new clients in need of our services;
- successfully re-sell engagements and secure new engagements every year, which may prove to be difficult in light of the current adverse economic conditions;
- maintain and enhance our brand recognition; and
- adapt quickly to meet changes in our markets, our business mix, the economic environment, the credit markets, and competitive developments.

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**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES.**

As of December 31, 2009, our principal executive offices in Chicago, Illinois, consisted of approximately 117,000 square feet of office space, under leases expiring through September 2014. We have two five-year renewal options that will allow us to continue to occupy the majority of this office space until September 2024. This facility accommodates our executive team and corporate departments, as well as professionals in each of our practices. We also have an office located in New York City, New York, consisting of approximately 55,000 square feet of office space, under a lease that expires in July 2016, with one five-year renewal option. Additionally, we occupy leased facilities for our other domestic and international offices, including those located in the following major metropolitan cities: Atlanta, Georgia; Boston, Massachusetts; Houston, Texas; Los Angeles, California; Portland, Oregon; San Francisco, California; Tokyo, Japan; and Washington, D.C. We also occupy leased facilities for our seven document review centers located in Chicago, Illinois; Houston, Texas; Miramar, Florida; Morrisville, North Carolina; New York City, New York; Charlotte, South Carolina; and Washington D.C., totaling approximately 1,000 workstations. We do not own any real property. We believe that our leased facilities are adequate to meet our current needs and that additional facilities are available for lease to meet future needs.

**ITEM 3. LEGAL PROCEEDINGS.**

On July 3, 2007, The Official Committee (the Committee) of Unsecured Creditors of Saint Vincents Catholic Medical Centers of New York d/b/a Saint Vincent Catholic Medical Centers ( St. Vincents ), et al. filed suit against Huron Consulting Group Inc., certain of our subsidiaries, including Speltz & Weis LLC, and two of our former managing directors, David E. Speltz ( Speltz ) and Timothy C. Weis ( Weis ), in the Supreme Court of the State of New York, County of New York. On November 26, 2007, Gray & Associates, LLC ( Gray ), in its capacity as trustee on behalf of the SVCMC Litigation Trust, was substituted as plaintiff in the place of the Committee and on February 19, 2008, Gray filed an amended complaint in the action. Beginning in 2004, St. Vincents retained Speltz & Weis LLC to provide management services to St. Vincents, and its two principals, Speltz and Weis, were made the interim chief executive officer and chief financial officer, respectively, of St. Vincents. In May of 2005, we acquired Speltz & Weis LLC. On July 5, 2005, St. Vincents filed for bankruptcy in the United States Bankruptcy Court for the Southern District of New York ( Bankruptcy Court ). On December 14, 2005, the Bankruptcy Court approved the retention of Speltz & Weis LLC and us in various capacities, including interim management, revenue cycle management and strategic sourcing services. The amended complaint filed by Gray alleges, among other things, breach of fiduciary duties, breach of the New York Not-For-Profit Corporation Law, malpractice, breach of contract, tortious interference with contract, aiding and abetting breaches of fiduciary duties, certain fraudulent transfers and fraudulent conveyances, breach of the implied duty of good faith and fair dealing, fraud, aiding and abetting fraud, negligent misrepresentation, and civil conspiracy, and seeks at least \$200 million in damages, disgorgement of fees, return of funds or other property transferred to Speltz & Weis LLC, attorneys fees, and unspecified punitive and other damages. We believe that the claims are without merit and intend to vigorously defend ourselves in this matter. The suit is in the pre-trial stage and no trial date has been set.

The SEC has commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. We also conducted a separate inquiry with independent advisors and counsel, in response to the initial inquiry from the SEC, into the allocation of time within a certain practice group. This matter had no impact on billings to our clients, but could have impacted the timing of when revenue was recognized. Based on our internal inquiry, which is complete, we have concluded that an adjustment to our historical financial statements is not required with respect to this matter. The SEC investigations with respect to the restatement and the allocation of time within a

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certain practice group are ongoing. We are cooperating fully with the SEC in its investigations. As often happens in these circumstances, the USAO for the Northern District of Illinois

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has contacted our counsel. The USAO made a telephonic request for copies of certain documents that we previously provided to the SEC, which we have voluntarily provided to the USAO.

In addition, the following purported shareholder class action complaints have been filed in connection with our restatement in the United States District Court for the Northern District of Illinois: (1) a complaint in the matter of Jason Hughes v. Huron Consulting Group Inc., Gary E. Holdren and Gary L. Burge, filed on August 4, 2009; (2) a complaint in the matter of Dorothy DeAngelis v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (3) a complaint in the matter of Noel M. Parsons v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (4) a complaint in the matter of Adam Liebman v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 5, 2009; (5) a complaint in the matter of Gerald Tobin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and PricewaterhouseCoopers LLP, filed on August 7, 2009, (6) a complaint in the matter of Gary Austin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 7, 2009 and (7) a complaint in the matter of Thomas Fisher v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on September 3, 2009. On October 6, 2009, Plaintiff Thomas Fisher voluntarily dismissed his complaint. On November 16, 2009, the remaining suits were consolidated and the Public School Teachers Pension & Retirement Fund of Chicago, the Arkansas Public Employees Retirement System, the City of Boston Retirement Board, the Cambridge Retirement System and the Bristol County Retirement System were appointed Lead Plaintiffs. Lead Plaintiffs filed a consolidated complaint on January 29, 2010. The consolidated complaint asserts claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder against Huron Consulting Group, Inc., Gary Holdren and Gary Burge and claims under Section 20(a) of the Exchange Act against Gary Holdren, Gary Burge and Wayne Lipski. The consolidated complaint contends that the Company and the individual defendants issued false and misleading statements regarding the Company's financial results and compliance with accounting principles generally accepted in the United States of America, or GAAP. Lead Plaintiffs request that the action be declared a class action, and seek unspecified damages, equitable and injunctive relief, and reimbursement for fees and expenses incurred in connection with the action, including attorneys fees. We intend to defend the action vigorously.

The Company also has been named as a nominal defendant in two state derivative suits filed in connection with the Company's restatement, since consolidated in the Circuit Court of Cook County, Illinois, Chancery Division on September 21, 2009: (1) a complaint in the matter of Curtis Peters, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge, Wayne Lipski, each of the members of the Board of Directors and PricewaterhouseCoopers LLP, filed on August 28, 2009 (the Peters suit) and (2) a complaint in the matter of Brian Hacias, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 28, 2009 (the Hacias suit). The consolidated cases are captioned In Re Huron Consulting Group, Inc. Shareholder Derivative Litigation. A consolidated complaint is forthcoming. The Peters suit was filed in the Circuit Court of Cook County, Illinois, Law Division, and alleges claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and waste of corporate assets. The Peters suit also alleges claims for professional negligence against PricewaterhouseCoopers LLP, the Company's independent auditors. The Hacias suit was filed in the Circuit Court of Cook County, Illinois, Chancery Division, and alleges claims for breach of fiduciary duty, gross negligence, abuse of control, gross mismanagement, breach of contract, waste of corporate assets, contribution and indemnification and insider trading. Both plaintiffs seek to recoup for the Company unspecified damages allegedly sustained by the Company resulting from the restatement and related matters, disgorgement and reimbursement for fees and expenses incurred in connection with the suits, including attorneys fees.

The Company also has been named as a nominal defendant in three Federal derivative suits filed in connection with the Company's restatement, since consolidated in the United States District Court for the Northern District of Illinois on November 23, 2009: (1) a complaint in the matter of Oakland County Employees Retirement System, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge,

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Wayne Lipski and each of the members of the Board of Directors, filed on October 7, 2009 (the Oakland suit ); (2) a complaint in the matter of Philip R. Wilmore, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge, Wayne Lipski, David M. Shade, and each of the members of the Board of Directors, filed on October 12, 2009 (the Wilmore suit ); and (3) a complaint in the matter of Lawrence J. Goelz, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge, Wayne Lipski, David M. Shade, and each of the members of the Board of Directors, filed on October 12, 2009 (the Goelz suit ). Oakland County Employees Retirement System, Philip R. Wilmore and Lawrence J. Goelz have been named Lead Plaintiffs. Lead Plaintiffs filed a consolidated complaint on January 15, 2010. The consolidated complaint asserts claims under Section 14(a) of the Exchange Act and for breach of fiduciary duty, waste of corporate assets and unjust enrichment. Lead Plaintiffs seek to recoup for the Company unspecified damages allegedly sustained by the Company resulting from the restatement and related matters, restitution from all defendants and disgorgement of all profits, benefits or other compensation obtained by the defendants and reimbursement for fees and expenses incurred in connection with the suit, including attorneys fees. On December 21, 2009, Huron filed a motion to stay the Federal derivative suits. Plaintiffs filed their opposition to the motion to stay on January 29, 2010. The Company filed its reply in further support of the motion to stay on February 16, 2010.

Given the uncertain nature of the SEC investigations with respect to the restatement and the allocation of time within a certain practice group, the USAO s request for certain documents and the purported private shareholder class action lawsuit and derivative lawsuits in respect of the restatement (collectively, the restatement matters ), and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the restatement matters, we are unable to predict the ultimate outcome of the restatement matters, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the restatement matters. Any such liability could be material. See Part I Item 1A. Risk Factors for a discussion of certain risks and uncertainties relating to the restatement matters and certain other risks and uncertainties that are heightened by the restatement matters.

On December 9, 2009, plaintiff, Associates Against Outlier Fraud, filed a First Amended *qui tam* complaint against Huron Consulting Group, Inc., and others under the federal and New York state False Claims Act ( FCA ) in the United States District Court for the Southern District of New York. The federal and state FCA authorize private individuals (known as relators ) to sue on behalf of the government (known as *qui tam* actions) alleging that false or fraudulent claims were knowingly submitted to the government. Once a *qui tam* action is filed, the government may elect to intervene in the action. If the government declines to intervene, the relator may proceed with the action. Under the federal and state FCA, the government may recover treble damages and civil penalties (civil penalties of up to \$11,000 per violation under the federal FCA and \$12,000 per violation under the state FCA). The relator s amended complaint alleges that Huron and others caused St. Vincent Catholic Medical Center to receive more than \$50 million in inflated outlier payments under the Medicare and Medicaid programs in violation of the federal and state FCA and also sues to recover an unspecified amount of civil penalties. On January 6, 2010, the United States declined to intervene in the lawsuit. (The New York state government has not participated.) On February 2, 2010, Huron filed a motion to dismiss the relator s federal and state claims. Huron believes the lawsuit lacks merit and intends to contest the lawsuit vigorously in the event its motion to dismiss is not granted.

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 annual report on Form 10-K, we are not a party to or threatened with 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

No matters were submitted to a vote of security holders during the fourth quarter of 2009.





**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Market Information**

Our common stock is traded on The NASDAQ Global Select Market under the symbol HURN. The following table sets forth, on a per share basis and for the periods indicated, the high and low closing sales prices for our common stock as reported by The NASDAQ Stock Market.

|                | <b>High</b> | <b>Low</b> |
|----------------|-------------|------------|
| <b>2008:</b>   |             |            |
| First Quarter  | \$ 78.75    | \$ 40.63   |
| Second Quarter | \$ 53.59    | \$ 41.36   |
| Third Quarter  | \$ 65.63    | \$ 44.89   |
| Fourth Quarter | \$ 59.90    | \$ 42.60   |
| <b>2009:</b>   |             |            |
| First Quarter  | \$ 59.95    | \$ 39.37   |
| Second Quarter | \$ 50.26    | \$ 36.81   |
| Third Quarter  | \$ 46.81    | \$ 11.99   |
| Fourth Quarter | \$ 26.66    | \$ 21.48   |

**Holdings**

As of February 15, 2010, there were 20 registered holders of record of Huron's common stock.

**Dividends**

We have not declared or paid any dividends on our common stock since we became a public company and do not intend to pay any dividends on our common stock in the foreseeable future. We currently expect that we will retain our future earnings, if any, for use in the operation and expansion of our business. Future cash dividends, if any, will be at the discretion of our board of directors and will depend upon, among other things, our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors the board of directors may deem relevant. In addition, our bank credit agreement restricts dividends to an amount up to 50% of consolidated net income (adjusted for non-cash share-based compensation expense) for such fiscal year, plus 50% of net cash proceeds during such fiscal year with respect to any issuance of capital securities.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The information required by this item appears under Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters included elsewhere in this annual report on Form 10-K.

**Table of Contents****Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Our 2004 Omnibus Stock Plan permits the netting of common stock upon vesting of restricted stock awards to satisfy individual tax withholding requirements. During the quarter ended December 31, 2009, we redeemed 5,462 shares of common stock with a weighted-average fair market value of \$25.83 as a result of such tax withholdings as presented in the table below.

| Period           |                   | Total Number of Shares Redeemed to Satisfy Employee Tax Withholding Requirements | Weighted-Average Fair Market Value Per Share Redeemed | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|------------------|-------------------|--|---|--|--|
| October 1, 2009  | October 31, 2009  | 5,462  | \$ 25.83  | N/A  | N/A  |
| November 1, 2009 | November 30, 2009 |  | \$  | N/A  | N/A  |
| December 1, 2009 | December 31, 2009 |  | \$  | N/A  | N/A  |
| Total            |                   | 5,462  | \$ 25.83  | N/A  | N/A  |

N/A Not applicable.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA.**

We have derived the following selected consolidated financial data as of and for the years ended December 31, 2005 through 2009 from our consolidated financial statements. The following data reflects the business acquisitions that we have completed through December 31, 2009. The results of operations for the acquired businesses have been included in our results of operations since the date of their acquisitions. The following data also reflects the classification of two businesses as discontinued operations as of December 31, 2009, as discussed below. See also note 4. Discontinued Operations under Part II Item 8. Financial Statements and Supplementary Data for additional information. Amounts previously reported on the Statements of Operations for fiscal years 2006 through 2008 have been reclassified in accordance with the discontinued operations section of Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 205, Presentation of Financial Statements. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere in this annual report on Form 10-K.

**Consolidated Statements of Operations Data****Year Ended December 31,**

| (in thousands, except per share data):  | 2009       | 2008       | 2007       | 2006       | 2005       |
|---|------------|------------|------------|------------|------------|
| <b>Revenues and reimbursable expenses:</b>  |            |            |            |            |            |
| Revenues  | \$ 628,700 | \$ 573,775 | \$ 475,770 | \$ 274,958 | \$ 207,213 |
| Reimbursable expenses   | 50,840     | 52,303     | 39,382     | 31,269     | 18,749     |
| Total revenues and reimbursable expenses  | 679,540    | 626,078    | 515,152    | 306,227    | 225,962    |
| <b>Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses) (1):</b> |            |            |            |            |            |
| Direct costs (2)  | 395,869    | 365,932    | 293,426    | 159,689    | 117,768    |
| Intangible assets amortization  | 4,695      | 6,629      | 7,993      | 507        | 1,314      |
| Reimbursable expenses   | 50,848     | 52,319     | 39,170     | 31,445     | 18,982     |
| Total direct costs and reimbursable expenses  | 451,412    | 424,880    | 340,589    | 191,641    | 138,064    |
| <b>Operating expenses:</b>  |            |            |            |            |            |
| Selling, general and administrative   | 125,655    | 126,094    | 99,398     | 65,322     | 51,035     |
| Restructuring charges   | 3,131      | 2,343      |            |            |            |
| Restatement related expenses  | 17,490     |            |            |            |            |
| Depreciation and amortization (1)   | 22,192     | 22,922     | 17,191     | 7,616      | 5,282      |
| Impairment charge on goodwill   | 67,034     |            |            |            |            |
| Total operating expenses  | 235,502    | 151,359    | 116,589    | 72,938     | 56,317     |
| Other gains   | (4,787)    |            |            |            |            |
| Operating (loss) income   | (2,587)    | 49,839     | 57,974     | 41,648     | 31,581     |
| <b>Other (expense) income:</b>  |            |            |            |            |            |
| Interest expense, net of interest income  | (12,256)   | (13,775)   | (8,263)    | (703)      | 472        |
| Other income (expense)  | 1,883      | (2,788)    | 19         | 16         | (37)       |
| Total other (expense) income  | (10,373)   | (16,563)   | (8,244)    | (687)      | 435        |
| <b>(Loss) income from continuing operations before provision for income taxes</b>   |            |            |            |            |            |
| Income tax expense  | (12,960)   | 33,276     | 49,730     | 40,961     | 32,016     |
| Income tax expense  | 1,529      | 27,750     | 28,439     | 18,637     | 14,247     |

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|  |             |           |           |           |           |
|--|-------------|-----------|-----------|-----------|-----------|
| Net (loss) income from continuing operations   | (14,489)    | 5,526     | 21,291    | 22,324    | 17,769    |
| (Loss) income from discontinued operations (including loss on disposal of \$0.4 million in 2009), net of tax | (18,384)    | 4,555     | 2,989     | 535       |           |
| Net (loss) income  | \$ (32,873) | \$ 10,081 | \$ 24,280 | \$ 22,859 | \$ 17,769 |

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| <b>Consolidated Statements of Operations Data (continued)</b>              | <b>Year Ended December 31,</b> |                           |             |             |             |
|--|--------------------------------|---------------------------|-------------|-------------|-------------|
|  | <b>2009</b>                    | <b>2008</b>               | <b>2007</b> | <b>2006</b> | <b>2005</b> |
| <b>(in thousands, except per share data) :</b>                             |                                |                           |             |             |             |
| Net (loss) earnings per basic share:                                       |                                |                           |             |             |             |
| (Loss) income from continuing operations                                   | \$ (0.72)                      | \$ 0.30                   | \$ 1.26     | \$ 1.37     | \$ 1.13     |
| (Loss) income from discontinued operations                                 | \$ (0.91)                      | \$ 0.25                   | \$ 0.17     | \$ 0.03     | \$          |
| Net (loss) income  | \$ (1.63)                      | \$ 0.55                   | \$ 1.43     | \$ 1.40     | \$ 1.13     |
| Net (loss) earnings per diluted share:                                     |                                |                           |             |             |             |
| (Loss) income from continuing operations                                   | \$ (0.72)                      | \$ 0.29                   | \$ 1.18     | \$ 1.29     | \$ 1.05     |
| (Loss) income from discontinued operations                                 | \$ (0.91)                      | \$ 0.24                   | \$ 0.17     | \$ 0.03     | \$          |
| Net (loss) income  | \$ (1.63)                      | \$ 0.53                   | \$ 1.35     | \$ 1.32     | \$ 1.05     |
| Weighted average shares used in calculating net (loss) earnings per share: |                                |                           |             |             |             |
| Basic  | 20,114                         | 18,257                    | 16,944      | 16,359      | 15,741      |
| Diluted  | 20,114                         | 19,082                    | 18,033      | 17,317      | 16,858      |
|  |                                |                           |             |             |             |
| <b>Consolidated Balance Sheet Data (in thousands):</b>                     |                                |                           |             |             |             |
|  |                                | <b>As of December 31,</b> |             |             |             |
|  | <b>2009</b>                    | <b>2008</b>               | <b>2007</b> | <b>2006</b> | <b>2005</b> |
| Cash and cash equivalents (3)  | \$ 6,459                       | \$ 14,106                 | \$ 2,993    | \$ 16,572   | \$ 31,820   |
| Working capital  | \$ (210)                       | \$ 12,904                 | \$ 33,511   | \$ 36,047   | \$ 52,272   |
| Total assets   | \$ 754,215                     | \$ 779,597                | \$ 443,213  | \$ 199,444  | \$ 129,699  |
| Long-term debt (4)   | \$ 219,005                     | \$ 280,204                | \$ 123,734  | \$ 1,000    | \$ 2,127    |
| Total stockholders' equity (5)   | \$ 326,989                     | \$ 319,026                | \$ 183,784  | \$ 116,580  | \$ 75,532   |

- (1) Intangible assets amortization relating to customer contracts, certain client relationships and software is presented as a component of total direct costs. Depreciation, amortization of leasehold improvements and amortization of other intangible assets are presented as a component of operating expenses.
- (2) Includes non-cash compensation expense from continuing operations representing Shareholder Payments and Employee Payments (each as defined below) totaling \$7.5 million, \$26.5 million, \$15.0 million and \$2.3 million in 2009, 2008, 2007 and 2006, respectively. These charges are further described under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations below, and in note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data.
- (3) Includes cash from discontinued operations of \$744 thousand, \$1,702 thousand and \$792 thousand as of December 31, 2009, 2008 and 2007, respectively.
- (4) Consists of bank borrowings and capital lease obligations, net of current portions, at December 31, 2009, 2008 and 2007. Consists of notes payable issued in connection with the acquisition of Speltz & Weis LLC at December 31, 2006 and 2005. Also includes capital lease obligations, net of current portions, at December 31, 2005.
- (5) We have not declared or paid any dividends on our common stock in the periods presented above and we do not intend to pay any dividends on our common stock in the foreseeable future.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*You should read the following discussion and analysis of our financial condition and results of operations together with the information under Part II Item 6. Selected Financial Data, and our historical audited consolidated financial statements and related notes appearing under Part II Item 8. Financial Statements and Supplementary Data. The following discussion and analysis of our financial condition and results of operations contains forward-looking statements and involves numerous risks and uncertainties, including, without limitation, those described under Part I Item 1A. Risk Factors and Forward-Looking Statements of this annual report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements.*



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### OVERVIEW

Huron is a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, comply with complex regulations, resolve disputes, recover from distress, leverage technology, and stimulate growth. We team with our clients to deliver sustainable and measurable results. Many of our highly experienced professionals have master's degrees in business or healthcare administration, doctorates in economics, are certified public accountants, or are accredited valuation specialists and forensic accountants. Our professionals employ their expertise in healthcare administration, accounting, finance, economics and operations to provide our clients with specialized analyses and customized advice and solutions that are tailored to address each client's particular challenges and opportunities. We provide consulting services to a wide variety of both financially sound and distressed organizations, including leading academic institutions, healthcare organizations, Fortune 500 companies, medium-sized businesses, and the law firms that represent these various organizations.

We provide our services and manage our business under four operating segments: Health and Education Consulting, Accounting and Financial Consulting, Legal Consulting, and Corporate Consulting. See Part I Item 1. Business Overview Our Services included elsewhere in this annual report on Form 10-K for a detailed discussion of our four segments. Effective January 1, 2010, we have reorganized our practice areas and service lines to better align ourselves to meet market demands and serve our clients. Under our new organizational structure, we will have three operating segments: Health and Education Consulting, Legal Consulting and Financial Consulting. Financial Consulting is the combination of our previously named Accounting and Financial Consulting and Corporate Consulting segments. The Financial Consulting segment practices primarily include the restructuring and turnaround, disputes and investigations, accounting advisory and utilities service offerings. The Health and Education Consulting and Legal Consulting segments remain unchanged.

In December 2009, our Board of Directors approved a plan to divest two businesses within the Corporate Consulting and Accounting and Financial Consulting operating segments. As part of the strategy to focus on our core businesses, we have committed to a plan to sell the portion of the international operations that include the office and respective operations in Japan, which is a component of both the Accounting and Financial Consulting and Corporate Consulting segments. Additionally, on December 31, 2009 we completed the sale of Galt, a strategy business within the Corporate Consulting segment which was acquired in 2006, back to its three principals. As a result of these actions, the operating results of Japan and Galt are reported as discontinued operations for 2009. All other operations of the business are considered continuing operations. Amounts previously reported for fiscal years 2006 through 2008 have been reclassified to conform with this presentation in accordance with FASB ASC Topic 205 Presentation of Financial Statements to allow for meaningful comparison of continued operations. The Consolidated Balance Sheets as of December 31, 2009 and 2008 aggregates amounts associated with the discontinued operations as described above. See note 4. Discontinued Operations under Part II Item 8. Financial Statements and Supplementary Data for additional information about our discontinued operations.

We have grown significantly since we commenced operations through hiring and acquisitions of complementary businesses. Revenues from continuing operations in 2009 totaled \$628.7 million, a 9.6% increase from 2008 and a 32.1% increase from 2007. These increases resulted from a combination of business acquisitions and organic growth. During the years ended December 31, 2008 and 2007, we completed the acquisitions described below. We did not complete any significant acquisitions in 2009.

### **Wellspring Partners LTD**

In January 2007, we acquired Wellspring Partners LTD ( Wellspring ), a management consulting firm specializing in integrated performance improvement services for hospitals and health systems. With the acquisition of Wellspring, we expanded our national presence in the healthcare provider sector and now





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provide a full complement of services to a wide spectrum of hospitals and multi-hospital systems. This acquisition was consummated on January 2, 2007 and the results of operations of Wellspring have been included within our Health and Education Consulting segment since that date. The aggregate purchase price of this acquisition was approximately \$143.7 million. We financed this acquisition with a combination of cash on hand and borrowings under our bank credit agreement. Additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met over a five-year period. Such amounts will be recorded as additional purchase price and an adjustment to goodwill.

Concurrent with the Stockamp acquisition described below, on July 8, 2008 we entered into an amendment to the Wellspring Stock Purchase Agreement. Effective January 1, 2009, in connection with the Stockamp acquisition, we combined Wellspring's revenue cycle business with Stockamp's revenue cycle business. As such, Wellspring will no longer be eligible for earn-out payments pertaining to that portion of the Wellspring business. In consideration for this, we paid Wellspring \$20.0 million through the issuance of 440,296 shares of our common stock. Additionally, we provided Wellspring with a protection against a decline in the value of the shares issued. We were not required to make further payments upon the lapse of the price protection in January 2009. See Part II Item 7A. Quantitative and Qualitative Disclosure About Market Risk for further details relating to the protection. The earn-out provision, as amended, pertaining to the non-revenue cycle portion of Wellspring's business will remain in effect through December 31, 2011.

### **Glass & Associates, Inc.**

Also in January 2007, we acquired Glass & Associates, Inc. ( Glass ), a turnaround and restructuring consulting firm that provides advice and leadership to troubled businesses in the United States and Europe. With the acquisition of Glass, we expanded our position in the consulting and restructuring marketplace, as well as expanded our interim management capabilities to distressed companies in industries beyond healthcare. The stock purchase agreement for this acquisition was executed on January 2, 2007 and the transaction was consummated on January 9, 2007 upon the satisfaction of certain closing conditions. The results of operations of Glass have been included within our Corporate Consulting segment since January 2, 2007. The aggregate purchase price of this acquisition was approximately \$38.4 million. We financed this acquisition with a combination of cash on hand and borrowings under our bank credit agreement. Additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met over a four-year period. Such amounts will be recorded as additional purchase price and an adjustment to goodwill. Also, additional payments may be made based on the amount of revenues the Company receives from referrals made by certain employees of Glass over a four-year period. Such amounts will be recorded as an expense.

### **Callaway Partners, LLC**

In July 2007, we acquired Callaway Partners, LLC ( Callaway ), a professional services firm that specializes in finance and accounting projects, financial reporting, internal audit and controls, and corporate tax solutions. With Callaway's extensive senior consultant and project management skills, along with its variable, on-demand workforce, we are better positioned to assist our clients with their accounting and corporate compliance challenges. This acquisition was consummated on July 29, 2007 and the results of operations of Callaway have been included within our Accounting and Financial Consulting segment since that date. The aggregate purchase price of this acquisition was approximately \$88.4 million. We financed this acquisition with borrowings under our bank credit agreement.

On April 4, 2008, we entered into an amendment to the Callaway Asset Purchase Agreement dated as of July 28, 2007, whereby we settled the earn-out provision under Section 3.3 of the agreement in consideration for \$23.0 million, payable in the form of a promissory note (the Note ), and the waiver of certain indemnity obligations. The Note, along with accrued interest of \$0.5 million, was paid in full on August 15, 2008.



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### **Stockamp & Associates, Inc.**

In July 2008, we acquired Stockamp & Associates, Inc. ( Stockamp ), a management consulting firm specializing in helping high-performing hospitals and health systems optimize their financial and operational performance. With the acquisition of Stockamp, we expanded our presence in the hospital consulting market and are better positioned to serve multiple segments of the healthcare industry, including major health systems, academic medical centers and community hospitals. This acquisition was consummated on July 8, 2008 and the results of operations of Stockamp have been included within our Health and Education Consulting segment since that date. The aggregate purchase price of this acquisition was approximately \$270.5 million, consisting of cash and stock. The cash portion of the purchase price was financed with borrowings under our credit agreement.

In addition to the accounting treatment described above with respect to the foregoing acquisitions, in certain of these acquisitions, portions of the purchase consideration that were redistributed by the selling shareholders among the selling shareholders and to certain of our employees based on performance or employment were also recorded as non-cash compensation expense. See below under the heading Restatement of Previously-Issued Financial Statements in this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data for additional information.

### **How We Generate Revenues**

A large portion of our revenues are 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, consisting of finance and accounting consultants, specialized operational consultants and contract reviewers, all of whom work variable schedules, as needed by our clients. Other professionals also include our document review and electronic data discovery groups, as well as full-time employees who provide software support and maintenance services to our clients. Our document review and electronic data discovery groups generate revenues primarily based on 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.

We generate the majority of our revenues from providing professional services under three types of billing arrangements: time-and-expense, fixed-fee, and performance-based.

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 50.6%, 66.6% and 75.8% of our revenues from continuing operations in 2009, 2008 and 2007, 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

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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 recognize revenues under fixed-fee billing arrangements using a percentage-of-completion approach, which is based on our estimates of work completed to-date versus the total services to be provided under the engagement. For the years ended December 31, 2009, 2008 and 2007, fixed-fee engagements represented approximately 34.1%, 28.1% and 21.8%, respectively, of our revenues from continuing operations.

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 cost effectiveness in the procurement area. Second, we have performance-based engagements in which we earn a success fee when and if certain pre-defined outcomes occur. Often this type of success fee supplements time-and-expense or fixed-fee engagements. We do not recognize revenues under performance-based billing arrangements until all related performance criteria are met. Performance-based fee revenues represented 13.8%, 4.6% and 2.4% of our revenues from continuing operations in 2009, 2008 and 2007, respectively. The increase in performance-based fee revenues was due to our acquisition of Stockamp, which has a larger percentage of performance-based fee engagements. Performance-based fee engagements may cause significant variations in quarterly revenues and operating results due to the timing of achieving the performance-based criteria.

We also generate revenues from licensing our proprietary software to clients and from providing related training and support during the term of the consulting engagement. Revenues from software licenses are recognized ratably over the term of the related consulting services contract. Thereafter, clients pay an annual fee for software support and maintenance. Annual 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 1.5% and 0.7% of our revenues from continuing operations in 2009 and 2008, and none in 2007.

Our quarterly results are impacted principally by our full-time consultants' utilization rate, the number of business days in each quarter and the number of our revenue-generating professionals who are available to work. 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 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.

## **Reimbursable expenses**

Reimbursable expenses that are billed to clients, primarily relating to travel and out-of-pocket expenses incurred in connection with engagements, are included in total revenues and reimbursable expenses, and typically an equivalent amount of these expenses are included in total direct costs and reimbursable expenses. Reimbursable expenses also include those subcontractors who are billed to our clients at cost. We manage our



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business on the basis of revenues before reimbursable expenses. We believe this is the most accurate reflection of our services because it eliminates the effect of these reimbursable expenses that we bill to our clients at cost.

### **Total direct costs**

Our most significant expenses are costs classified as total direct costs. These total direct costs primarily include direct costs consisting of salaries, performance bonuses, payroll taxes and benefits for revenue-generating professionals, as well as fees paid to independent contractors that we retain to supplement these professionals, typically on an as-needed basis for specific client engagements. Direct costs also include share-based compensation, which represents the cost of restricted stock and stock option awards granted to our revenue-generating professionals. Compensation for share-based awards is amortized on a straight-line basis over the requisite service period, which is generally four years. As a result of the granting of restricted common stock awards and anticipated future awards, share-based compensation expense may increase in the future. Total direct costs also include intangible assets amortization relating to customer contracts, certain customer relationships, and software as well as non-cash compensation expense related to Shareholder Payments and Employee Payments as discussed below under the heading Restatement of Previously Issued Financial Statements .

### **Operating expenses**

Our operating expenses include selling, general and administrative expenses, which consist primarily of salaries, performance bonuses, payroll taxes and benefits, as well as share-based compensation for our non-revenue-generating professionals. Compensation for share-based awards is amortized on a straight-line basis over the requisite service period, which is generally four years. As a result of the granting of restricted common stock awards and anticipated future awards, share-based compensation expense may increase in the future. Also included in this category are sales and marketing related expenses, rent and other office-related expenses, professional fees, recruiting and training expenses, restatement-related expenses, restructuring charges, impairment charge on goodwill and other gains. Other operating expenses include certain depreciation and amortization expenses not included in total direct costs.

### **Segment results**

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 corporate office support costs, 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.

## **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. The notes to our consolidated financial statements include disclosure of our significant accounting policies. We review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and



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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

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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. These critical accounting policies relate to revenue recognition, allowances for doubtful accounts and unbilled services, carrying values of goodwill and other intangible assets, and valuation of net deferred tax assets.

### **Revenue Recognition**

We recognize revenues in accordance with FASB ASC Topic 605 Revenue Recognition. Under FASB ASC Topic 605, revenue is recognized when persuasive evidence of an arrangement exists, the related services are provided, the price is fixed or determinable and collectability is reasonably assured. We generate the majority of our revenues from providing professional services under three types of billing arrangements: time-and-expense, fixed-fee, and performance-based.

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 arrangements as the related services are rendered.

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 recognize revenues under fixed-fee billing arrangements using a percentage-of-completion approach, which is based on our estimates of work completed to-date versus the total services to be provided under the engagement. Estimates of total engagement revenues and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and reasonably estimable.

In performance-based billing arrangements, fees are tied to the attainment of contractually defined objectives. We do not recognize revenues under performance-based billing arrangements until all related performance criteria are met.

We also generate revenues from licensing our proprietary software to clients and from providing related training and support during the term of the consulting engagement. Licenses for our software are sold only as a component of our consulting projects and as such, there is no vendor specific objective evidence of fair value. Therefore, revenues from software licenses are recognized ratably over the term of the related consulting services contract. Thereafter, clients pay an annual fee for software support and maintenance. Annual 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.

We have arrangements with clients in which we provide multiple elements of services under one engagement contract. Revenues under these types of arrangements are allocated to each element based on the element's fair value in accordance with ASC Topic 605 and recognized pursuant to the criteria described above.

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Provisions are recorded for the estimated realization adjustments on all engagements, including engagements for which fees are subject to review by the bankruptcy courts. Expense reimbursements that are billable to clients are included in total revenues and reimbursable expenses, and typically an equivalent amount

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of reimbursable expenses are included in total direct costs and reimbursable expenses. Reimbursable expenses are primarily recognized as revenue in the period in which the expense is incurred. Subcontractors that are billed to clients at cost are also included in reimbursable expenses.

Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or deferred revenues in the accompanying consolidated balance sheets. Revenues recognized for services performed but not yet billed to clients are recorded as unbilled services. Client prepayments and retainers are classified as deferred (i.e., unearned) revenues and recognized over future periods as earned in accordance with the applicable engagement agreement.

### **Allowances for Doubtful Accounts and Unbilled Services**

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

We record the provision for doubtful accounts and unbilled services as a reduction in revenue to the extent the provision relates to fee adjustments and other discretionary pricing adjustments. To the extent the provision relates to a client's inability to make required payments on accounts receivables, we record the provision in selling, general and administrative expenses.

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

Goodwill represents the excess of the cost of an acquired business over the net of the amounts assigned to assets acquired and liabilities assumed. Pursuant to the provisions of FASB ASC Topic 350, Intangibles Goodwill and Other, goodwill is required to be tested at the reporting unit level for impairment annually or whenever indications of impairment arise. Pursuant to our policy, we performed the annual goodwill impairment test as of April 30, 2009 and determined that no impairment of goodwill existed as of that date. In the third quarter of 2009, subsequent to our annual goodwill impairment testing, we reorganized our government contract consulting practice from our Health and Education Consulting reporting unit to our Accounting and Financial Consulting reporting unit. As a result, \$8.5 million of related goodwill was reallocated between these reporting units.

On July 31, 2009, we announced our intention to restate our financial statements due to the accounting errors discussed below under Restatement of Previously-Issued Financial Statements. Immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in our stock price, we determined that an event had occurred that may indicate the carrying value of our goodwill may have been impaired. Accordingly, we engaged in an impairment analysis with respect to the carrying value of our goodwill, as of August 3, 2009, in connection with the preparation of our financial statements for the quarter ended September 30, 2009.

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In accordance with FASB ASC Topic 350, we aggregate our business components into reporting units and test for goodwill impairment. Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill. If the fair value of a reporting unit exceeds its

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carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The SEC has commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. As often happens in these circumstances, the USAO for the Northern District of Illinois contacted our counsel and made a telephonic request for copies of certain documents that we previously provided to the SEC, which we voluntarily provided to the USAO. In addition, several purported shareholder class action complaints, since consolidated, and derivative lawsuits have been filed in connection with our restatement. See Part I Item 3. Legal Proceedings and note 19. Commitments, Contingencies and Guarantees in the notes to consolidated financial statements under Part II Item 8. Financial Statements and Supplementary Data for a discussion of the SEC investigations, the USAO's request for certain documents and the purported private shareholder class action and derivative lawsuits. As a result of the uncertain nature of these matters and their uncertain effect on our business as well as the related costs and expenses associated with these matters, and based on our then existing backlog, pipeline of new proposal opportunities, and continued uncertain market conditions, we lowered our revenue projections and earnings for the remainder of 2009 and also our longer-term outlook, and increased the discount rates used in the goodwill impairment analysis.

Based on the result of the first step of the goodwill impairment analysis, we determined that the fair values of our Accounting and Financial Consulting and Corporate Consulting reporting units were less than their carrying values while the fair values of our Health and Education Consulting and Legal Consulting reporting units exceeded their carrying values by 32% and 61%, respectively. As such, we applied the second step of the goodwill impairment test to our Accounting and Financial Consulting and Corporate Consulting reporting units.

Based on the result of the second step of the goodwill impairment analysis, we determined that the carrying values of the goodwill associated with these reporting units exceeded their implied fair values, resulting in a \$106.0 million non-cash pretax goodwill impairment charge. This impairment charge was recognized to reduce the carrying value of goodwill in our Accounting and Financial Consulting reporting unit by \$59.0 million and our Corporate Consulting reporting unit by \$47.0 million. Of the \$47.0 million recognized in the Corporate Consulting reporting unit, \$39.0 million is reported as discontinued operations in the consolidated statement of operations for the year ended December 31, 2009. As described below under Restatement of Previously-Issued Financial Statements and Liquidity and Capital Resources Financing activities, under the definition of consolidated earnings before interest, taxes, depreciation and amortization ( EBITDA ) under the Credit Agreement, as amended, the impairment charge was an add back for the period ended September 30, 2009.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test requires our management to make significant judgments, estimates and assumptions. 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.

In estimating the fair value of our reporting units, we considered the income approach, the market approach and the cost approach. The income approach recognizes that the value of an asset is premised upon the expected receipt of future economic benefits. This approach involves projecting the cash flows the asset is



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expected to generate. Fair value indications are developed in the income approach by discounting expected future cash flows available to the investor at a rate which reflects the risk inherent in the investment. The market approach is primarily comprised of the guideline company and the guideline transaction methods. The guideline company method compares the subject company to selected reasonably similar companies whose securities are actively traded in the public markets. The guideline transaction method gives consideration to the prices paid in recent transactions that have occurred in the subject company's industry. The cost approach estimates the fair value of an asset based on the current cost to purchase or replace the asset.

In determining the fair value of our reporting units, 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, such as us, the income and market approaches will generally provide the most reliable indications of value because the value of such companies is more dependent on their ability to generate earnings than on the value of the assets used in the production process. We did not utilize the guideline transaction method due to a limited number of recent transactions and the multiples derived from recent transactions did not provide meaningful value indications for our reporting units. We also did not use the cost approach because our reporting units were valued on a going concern basis. The income approach and market approach both take into account the future earnings potential of our reporting units.

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 each of the reporting units and then discounting these 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 for each of our reporting units, we relied on internally generated six-year forecasts and a three percent long-term assumed annual revenue growth rate for periods after the six-year forecast. Our forecasts were based on our historical experience, then current backlog, expected market demand, and other industry information at the time the forecasts were prepared. For our Health and Education Consulting and Legal Consulting reporting units, we used a 15% discount rate while for our Accounting and Financial Consulting and Corporate Consulting reporting units, we used a 19% discount rate. We used a lower discount rate for our Health and Education Consulting and Legal Consulting reporting units due to their strength in the marketplace, as well as current and forecasted steady growth. In comparison, we used a higher discount rate for our Accounting and Financial Consulting and Corporate Consulting reporting units because these two reporting units have recently experienced soft demand and are undergoing restructuring activities. Additionally, the Accounting and Financial Consulting reporting unit may be more challenged by our financial restatement due to the type of services that this reporting unit provides.

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 applied to the operating data for our reporting units and adjusted for factors similar to the discounted cash flow analysis to arrive at an indication of value.



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While we believe that our estimates and assumptions underlying the valuation methodology are reasonable, different estimates and assumptions could result in different outcomes. The table below presents the decrease in the fair value of each of our reporting units given a one percent increase in the discount rate or a one percent decrease in the long-term assumed annual revenue growth rate. A 10% change in the weighting of the income approach and the market approach would not have had a significant effect on the fair value of our reporting units.

|                       |                | Decrease in Fair Value of the Reporting Unit |  |                     |                         |
|-----------------------|----------------|--|--|---------------------|-------------------------|
|                       |                | Health<br>and<br>Education<br>Consulting     | Accounting<br>and<br>Financial<br>Consulting | Legal<br>Consulting | Corporate<br>Consulting |
| (in thousands)        |                |  |  |                     |                         |
| Discount Rate         | Increase by 1% | \$ 48,400                                    | \$ 2,100                                     | \$ 8,800            | \$ 2,400                |
| Long-term Growth Rate | Decrease by 1% | \$ 27,400                                    | \$ 700                                       | \$ 3,900            | \$ 800                  |

As described above, a goodwill impairment analysis requires significant judgments, estimates and assumptions. The results of this 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 decline 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 additional goodwill impairment charges.

In connection with our previous business acquisitions, additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met. These payments are not contingent upon the continuing employment of the selling shareholders. Such amounts are recorded as additional purchase consideration in the period they are earned with a corresponding adjustment to goodwill. During the fourth quarter of 2009, additional purchase consideration payable to the selling shareholders of previous acquisitions was accrued as the achievement of specific performance targets were met as of December 31, 2009. Additional purchase consideration totaling \$66.2 million was recorded as additional purchase price and an adjustment to goodwill in 2009.

As of December 31, 2009, we evaluated whether any events had occurred since the August 3, 2009 goodwill impairment test that may have indicated the carrying value of goodwill may have been impaired. As a result of our analysis, we concluded that no additional events had occurred that would have indicated any indications of impairment existed as of December 31, 2009.

The carrying values of goodwill for each of our reporting units as of December 31, 2009 are as follows (in thousands):

|                            | Health<br>and<br>Education<br>Consulting | Accounting<br>and<br>Financial<br>Consulting | Legal<br>Consulting | Corporate<br>Consulting | Total      |
|----------------------------|--|--|---------------------|-------------------------|------------|
| Carrying Value of Goodwill | \$ 381,923                               | \$ 22,825                                    | \$ 25,784           | \$ 33,637               | \$ 464,169 |

Intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill. Our intangible assets, net of accumulated amortization, totaled \$22.4 million at December 31, 2009 and consist of customer relationships, non-competition agreements, tradenames, as well as technology and software. We use valuation techniques in estimating the initial fair value of acquired intangible assets. These valuations are primarily based on the present value of the estimated net cash flows expected to be derived from the client contracts and relationships, discounted for assumptions such as future customer attrition. We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Therefore, higher or earlier-than-expected

customer attrition may result in higher future amortization charges or an impairment charge for customer-related intangible assets.

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### **Valuation of Net Deferred Tax Assets**

We account for income taxes in accordance with FASB ASC Topic 740 Income Taxes. Deferred tax assets and liabilities are recorded for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. To the extent that deferred tax assets will not likely be recovered from future taxable income, a valuation allowance is established against such deferred tax assets.

In preparing financial statements, we exercise significant judgment in determining our provision for income taxes, deferred tax assets and liabilities, and the valuation allowance. In determining our provision for income taxes on an interim basis, we estimate our annual effective tax rate based on information available at each interim period. In determining whether a valuation allowance is warranted, we consider the historical and estimated future taxable income and other relevant factors of the operation recording the respective deferred tax asset. If actual results differ from our estimates, or if these estimates are adjusted in future periods, an adjustment to the valuation allowance may be required. To the extent that we increase the valuation allowance, our provision for income taxes will increase and our net income will decrease in the period that the adjustment is made. As of December 31, 2009, we have recorded net deferred tax assets totaling \$37.6 million.

### **RESTATEMENT OF PREVIOUSLY-ISSUED FINANCIAL STATEMENTS**

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

- Amendment No. 1 on Form 10-K/A, filed with the SEC on August 17, 2009, to our annual report on Form 10-K for the year ended December 31, 2008, originally filed on February 24, 2009.
- Amendment No. 1 on Form 10-Q/A, filed with the SEC on August 17, 2009, to our quarterly report on Form 10-Q for the period ended March 31, 2009, originally filed on April 30, 2009.

All financial information included in this annual report on Form 10-K reflects the restatement.

The restatement related to four businesses that we acquired between 2005 and 2007 (the Acquired Businesses). Pursuant to the purchase agreements for each of these acquisitions, payments were made by us to the selling shareholders (1) upon closing of the transaction, (2) in some cases, upon the Acquired Businesses achieving specific financial performance targets over a number of years (earn-outs), and (3) in one case, upon the buy-out of an obligation to make earn-out payments. These payments are collectively referred to as acquisition-related payments.

The acquisition-related payments made by us to the selling shareholders represented purchase consideration. As such, these payments, to the extent that they exceeded the net of the fair value assigned to assets acquired and liabilities assumed, were properly recorded as goodwill, in accordance with GAAP. Payments made upon the closing of the acquisition were recorded as goodwill on the date of closing. Earn-out payments were recorded as purchase consideration resulting in additional goodwill when the financial performance targets were met by the

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Acquired Businesses. The payment made upon the buy-out of an obligation to make earn-out payments was recorded as goodwill on the date of the buy-out.

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

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auditors who had not previously been aware of the Shareholder Payments and the Employee Payments (in each case, as defined below).

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

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

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

As discussed above, only a portion of the acquisition-related payments to selling shareholders was redistributed among themselves based on performance or employment while the balance was distributed in accordance with their ownership interests on the date we acquired the business. The total amounts of the acquisition-related payments received by the selling shareholders after the redistribution did not differ significantly from the amounts such selling shareholders would have received if the distribution of such portion of the acquisition-related payments had been made in proportion to their respective ownership interests. Under GAAP, however, we are required to recognize as non-cash compensation expense the entire amount of the acquisition-related payment that was subject to redistribution based on performance or employment and not

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merely the difference between the amount a selling shareholder received following such redistribution and the amount such selling shareholder would have received if such portion had been distributed in accordance with his ownership interests.

As a result of the correction of these accounting errors, which are not tax deductible, we recalculated our provision for income taxes for each of the quarterly periods using the annual effective income tax rate method in accordance with FASB ASC Topic 740 *Income Taxes*. As such, our interim quarterly provision for income taxes decreased in certain periods and increased in others, with a corresponding change in income tax receivable or payable. However, there is no change to our provision for income taxes or our tax accounts on an annual basis. While the correction of these errors significantly reduced our net income and earnings per share for each of the affected periods, it had no effect on our total assets, total liabilities, or total stockholders' equity on an annual basis. Further, the correction of these errors had no effect on our net cash flows. See note 3. *Restatement of Previously-Issued Financial Statements* under Part II *Financial Statements and Supplementary Data* for a summary of the impact of the Shareholder Payments and Employee Payments on our consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007.

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

In light of these determinations and given the magnitude of the accounting errors underlying the restatement, our Board of Directors concluded that it was appropriate for the Company to appoint a new Chairman, a new Chief Executive Officer, a new Chief Financial Officer and a new Chief Accounting Officer. Our Board of Directors and Gary Holdren, our then Chief Executive Officer, agreed that he should resign as Chairman of the Board and Chief Executive Officer. George Massaro, who was the then Vice Chairman of the Board of Directors, was elected as our Non-Executive Chairman of the Board of Directors. James Roth, one of the founders of the Company, was named Chief Executive Officer. James Rojas, another founder of the Company, was named Chief Financial Officer, succeeding Gary Burge who remained with the Company until the end of 2009. Wayne Lipski, previously Chief Accounting Officer, ended employment with the Company during the third quarter and provided certain services to the Company as an independent consultant through January 2010. The role of Chief Accounting Officer has not been filled. On November 3, 2009, James Roth was appointed to the Board of Directors and James Rojas was appointed Treasurer, in addition to his current position of Chief Financial Officer.

Based on the results of the Company's inquiry into the acquisition-related payments to date and the agreement amendments described below, earn-outs for the period after August 1, 2009 are accounted for as additional purchase consideration and not also as non-cash compensation expense. Effective August 1, 2009, the selling shareholders of two of the Acquired Businesses each amended certain agreements related to the earn-outs to provide that future earn-outs will be distributed only to the applicable selling shareholders and only in accordance with their equity interests on the date we acquired the business with no required continuing employment. The amended agreements provide that no further Shareholder Payments or Employee Payments will be made. We recognized \$8.3 million of non-cash compensation expense during 2009 related to Shareholder Payments and Employee Payments. We expect to incur a moderate increase in cash compensation expense in future periods related to Shareholder Payments and Employee Payments for such periods. We incurred cash compensation expense related to Shareholder Payments and Employee Payments

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of \$3.6 million in 2009, and we currently expect to incur no more than \$4 million in each of 2010 and 2011. The earn-out payments for one of the Acquired Businesses are payable through December 31, 2011. There are no additional earn-out obligations related to the other three Acquired Businesses. Additionally, as a result of the impact that our restatement may have on our business, we expect to incur a moderate increase in cash compensation expense to retain our top-performing employees. We also expect an increase in operating expenses, including legal fees, as a result of the Company's inquiries into the acquisition-related payments and the allocation of time within a certain practice group, the restatement, the SEC investigations with respect to the restatement and the allocation of time within a certain practice group, the USAO's request for certain documents and the purported private shareholder class action lawsuits, since consolidated, and derivative lawsuits in respect of the restatement.

On July 31, 2009, immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day next following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in the price of our common stock, we engaged in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009 and recorded a \$106.0 million non-cash pretax charge for the impairment of goodwill, as described in more detail above under **Critical Accounting Policies Carrying Values of Goodwill and Other Intangible Assets** and under note 6. **Goodwill and Intangible Assets** in the notes to the consolidated financial statements set forth in **Part II Item 8. Financial Statements and Supplementary Data**. The impairment charge is non-cash in nature and did not affect the Company's liquidity. As described in more detail below under **Liquidity and Capital Resources Financing activities**, we also amended our Credit Agreement by, among other things, modifying the definition of consolidated EBITDA under the Credit Agreement to allow for the add back of the impairment charge for the period ended September 30, 2009.

The SEC has commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. We also conducted a separate inquiry with independent advisors and counsel, in response to the initial inquiry from the SEC, into the allocation of time within a certain practice group. This matter had no impact on billings to our clients, but could have impacted the timing of when revenue was recognized. Based on our internal inquiry, which is complete, we have concluded that an adjustment to our historical financial statements is not required with respect to this matter. The SEC investigation with respect to the allocation of time within a certain practice group is ongoing. We are cooperating with the SEC in its investigations with respect to the circumstances that led to the restatement and the allocation of time within a certain practice group. As often happens in these circumstances, the USAO for the Northern District of Illinois has contacted our counsel. The USAO made a telephonic request for copies of certain documents that we previously provided to the SEC, which we have voluntarily provided to the USAO. In addition, several purported shareholder class action complaints and derivative lawsuits have been filed in connection with the restatement. See **Part I Item 3. Legal Proceedings** and note 19. **Commitments, Contingencies and Guarantees** in the notes to consolidated financial statements under **Part II Item 8. Financial Statements and Supplementary Data** for a description of the purported private shareholder class action lawsuit and derivative lawsuits.

Given the uncertain nature of the SEC investigations with respect to the restatement and the allocation of time within a certain practice group, the USAO's request for certain documents and the purported private shareholder class action lawsuit and derivative lawsuits in respect of the restatement (collectively, the **restatement matters**), and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the **restatement matters**, we are unable to predict the ultimate outcome of the **restatement matters**, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the **restatement matters**. Any such liability could be material. See **Part I Item 1A. Risk Factors** for a discussion of certain risks and uncertainties relating to the **restatement matters** and certain other risks and uncertainties that are heightened by the **restatement matters**.

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In December 2009, our Board of Directors approved a plan to divest two businesses within the Corporate Consulting and Accounting and Financial Consulting operating segments. As part of the strategy to focus on our core businesses, we have committed to a plan to sell the portion of the international operations that include the office and respective operations in Japan ( Japan ), which is a component of both the Accounting and Financial Consulting and Corporate Consulting segments. Additionally, on December 31, 2009 we completed the sale of the April 2006 acquisition of MS Galt & Company LLC ( Galt ), a strategy business within the Corporate Consulting segment, back to its original shareholders. As a result of these actions, the operating results of Japan and Galt are reported as discontinued operations for 2009. All other operations of the business are considered continuing operations. Amounts for fiscal years 2007 and 2008 below have been reclassified to conform with this presentation to allow for meaningful comparison. See note 4. Discontinued Operations under Part II Item 8. Financial Statements and Supplementary Data for additional information.

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

**Segment and Consolidated Operating Results of Continuing Operations****Year Ended December 31,**

| (in thousands):                              | 2009              | 2008             | 2007             |
|--|-------------------|------------------|------------------|
| <b>Revenues and reimbursable expenses:</b>   |                   |                  |                  |
| Health and Education Consulting (6)          | \$ 373,881        | \$ 269,370       | \$ 177,722       |
| Accounting and Financial Consulting (6)(7)   | 99,352            | 137,732          | 159,222          |
| Legal Consulting                             | 114,824           | 121,413          | 89,849           |
| Corporate Consulting (7)                     | 40,643            | 45,260           | 48,977           |
| Total revenues                               | 628,700           | 573,775          | 475,770          |
| Total reimbursable expenses                  | 50,840            | 52,303           | 39,382           |
| Total revenues and reimbursable expenses     | \$ 679,540        | \$ 626,078       | \$ 515,152       |
| <b>Operating income:</b>                     |                   |                  |                  |
| Health and Education Consulting (1)          | \$ 141,295        | \$ 90,886        | \$ 51,685        |
| Accounting and Financial Consulting (1)(7)   | 16,285            | 22,512           | 60,329           |
| Legal Consulting                             | 22,035            | 37,780           | 28,293           |
| Corporate Consulting (7)                     | 11,667            | 6,044            | 7,956            |
| Total segment operating income (1)           | 191,282           | 157,222          | 148,263          |
| Operating expenses not allocated to segments | 193,869           | 107,383          | 90,289           |
| <b>Operating (loss) income</b>               | <b>\$ (2,587)</b> | <b>\$ 49,839</b> | <b>\$ 57,974</b> |

**Other Operating Data of Continuing Operations****Number of full-time billable consultants (at period end) (2):**

|  |     |     |     |
|--|-----|-----|-----|
| Health and Education Consulting (6)        | 857 | 879 | 429 |
| Accounting and Financial Consulting (6)(7) | 209 | 323 | 377 |
| Legal Consulting                           | 141 | 163 | 173 |
| Corporate Consulting (7)                   | 77  | 91  | 164 |



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|   |       |       |       |
|---|-------|-------|-------|
| Total   | 1,284 | 1,456 | 1,143 |
| <b>Average number of full-time billable consultants (for the period) (2):</b> |       |       |       |
| Health and Education Consulting (6)   | 875   | 641   | 373   |
| Accounting and Financial Consulting (6)(7)                                    | 278   | 350   | 323   |
| Legal Consulting  | 148   | 164   | 139   |
| Corporate Consulting (7)  | 85    | 131   | 148   |
| Total   | 1,386 | 1,286 | 983   |

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| Other Operating Data of Continuing Operations (continued):              | Year Ended December 31, |        |        |
|---|-------------------------|--------|--------|
|   | 2009                    | 2008   | 2007   |
| <b>Full-time billable consultant utilization rate (3):</b>              |                         |        |        |
| Health and Education Consulting (6)                                     | 75.3%                   | 79.6%  | 79.4%  |
| Accounting and Financial Consulting (6)(7)                              | 57.3%                   | 54.7%  | 73.9%  |
| Legal Consulting  | 57.1%                   | 62.8%  | 73.4%  |
| Corporate Consulting (7)  | 55.6%                   | 50.9%  | 60.6%  |
| Total   | 68.5%                   | 67.7%  | 73.9%  |
| <b>Full-time billable consultant average billing rate per hour (4):</b> |                         |        |        |
| Health and Education Consulting (6)                                     | \$ 272                  | \$ 251 | \$ 271 |
| Accounting and Financial Consulting (6)(7)                              | \$ 251                  | \$ 269 | \$ 288 |
| Legal Consulting  | \$ 207                  | \$ 235 | \$ 240 |
| Corporate Consulting (7)  | \$ 398                  | \$ 335 | \$ 289 |
| Total   | \$ 270                  | \$ 260 | \$ 275 |
| <b>Revenue per full-time billable consultant (in thousands):</b>        |                         |        |        |
| Health and Education Consulting (6)                                     | \$ 385                  | \$ 378 | \$ 406 |
| Accounting and Financial Consulting (6)(7)                              | \$ 262                  | \$ 268 | \$ 398 |
| Legal Consulting  | \$ 216                  | \$ 269 | \$ 305 |
| Corporate Consulting (7)  | \$ 460                  | \$ 332 | \$ 317 |
| Total   | \$ 347                  | \$ 330 | \$ 376 |
| <b>Average number of full-time equivalents (for the period) (5):</b>    |                         |        |        |
| Health and Education Consulting (6)                                     | 111                     | 71     | 60     |
| Accounting and Financial Consulting (6)(7)                              | 103                     | 176    | 125    |
| Legal Consulting  | 644                     | 583    | 338    |
| Corporate Consulting (7)  | 2                       | 4      | 6      |
| Total   | 860                     | 834    | 529    |
| <b>Revenue per full-time equivalents (in thousands):</b>                |                         |        |        |
| Health and Education Consulting (6)                                     | \$ 335                  | \$ 379 | \$ 438 |
| Accounting and Financial Consulting (6)(7)                              | \$ 258                  | \$ 249 | \$ 245 |
| Legal Consulting  | \$ 129                  | \$ 133 | \$ 141 |
| Corporate Consulting (7)  | \$ 765                  | \$ 449 | \$ 345 |
| Total   | \$ 172                  | \$ 180 | \$ 201 |

(1) Includes non-cash compensation expense from continuing operations as follows (in thousands):

|                                     | Twelve Months Ended<br>December 31, |           |           |
|-------------------------------------|-------------------------------------|-----------|-----------|
|                                     | 2009                                | 2008      | 2007      |
| Health and Education Consulting     | \$ 5,606                            | \$ 14,966 | 12,819    |
| Accounting and Financial Consulting | 1,895                               | 11,554    | 2,195     |
| Total                               | \$ 7,501                            | \$ 26,520 | \$ 15,014 |

- (2) Consists of our full-time professionals who provide consulting services and generate revenues based on the number of hours worked.
- (3) Utilization rate for our full-time billable consultants is calculated by dividing the number of hours all 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.
- (4)

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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.

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- (5) Consists of consultants who work variable schedules as needed by our clients, as well as contract reviewers and other professionals who generate revenues primarily based on number of hours worked and units produced, such as pages reviewed and data processed. Also includes full-time employees who provide software support and maintenance services to our clients.
- (6) Reflects the reclassification of our government contract consulting practice from our Health and Education Consulting segment to our Accounting and Financial Consulting segment in conjunction with an internal reorganization.
- (7) Excludes the results from the operations of Japan and Galt which are reported as discontinued operations for the periods presented.

## **Year Ended December 31, 2009 Compared to Year Ended December 31, 2008**

### **Revenues**

Revenues increased \$54.9 million, or 9.6%, to \$628.7 million for the year ended December 31, 2009 from \$573.8 million for the year ended December 31, 2008. We acquired Stockamp on July 8, 2008 and therefore, revenues for 2009 included a full year of revenues generated by Stockamp while revenues for 2008 included revenues from Stockamp for slightly less than six months.

Of the overall \$54.9 million increase in revenues, \$56.6 million was attributable to our full-time consultants, partially offset by a \$1.7 million decrease attributable to our full-time equivalents. Full-time equivalents consist of finance and accounting consultants, specialized operational consultants and contract reviewers, all of whom work variable schedules as needed by our clients. Full-time equivalents also include our document review and electronic data discovery groups, as well as full-time employees who provide software support and maintenance services to our clients. The \$56.6 million increase in full-time billable consultant revenues was attributable to an increase in the number of consultants in our Health and Education Consulting segment reflecting our acquisition of Stockamp, coupled with an increase in the utilization rate of our consultants and an increase in our average billing rate resulting from an increase in performance-based revenues recognized in the period upon meeting performance criteria associated with several Stockamp engagements. Performance-based fee engagements may cause significant variations in revenues and operating results due to the timing of achieving the performance-based criteria. The \$1.7 million decrease in full-time equivalent revenues resulted from lower demand for our variable, on-demand consultants in our Accounting and Financial Consulting segment, partially offset by higher demand in our Legal Consulting and Health and Education Consulting segments.

### **Total direct costs**

Our direct costs increased \$30.0 million, or 8.2%, to \$395.9 million for the year ended December 31, 2009 from \$365.9 million for the year ended December 31, 2008. Of the \$30.0 million increase, approximately \$34.4 million of the increase was attributable to the increase in salaries, benefits and bonus expense of our revenue-generating professionals. Contributing to this increase was the increase in the average number of revenue-generating professionals as well as the promotion of our employees during the year, including 17 to the managing director level effective January 1, 2009. Additionally, \$12.2 million of the increase in direct costs was attributable to an increased usage of independent contractors, in particular within our Legal Consulting and Health and Education Consulting segments. These increases were partially offset by a decrease of \$19.0 million in non-cash compensation. We recorded non-cash compensation expense totaling \$7.5 million and \$26.5 million during 2009 and 2008, respectively, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements. Share-based compensation expense associated with our revenue-generating professionals was \$14.4 million in 2009 compared to \$16.0 million in 2008.

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Total direct costs for the year ended December 31, 2009 and 2008 included \$4.7 million and \$6.6 million, respectively, of intangible assets amortization expense, primarily representing customer-related assets and software acquired in connection with the Stockamp acquisition.

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### **Operating expenses**

Selling, general and administrative expenses decreased \$0.4 million, or 0.3%, to \$125.7 million for the year ended December 31, 2009 from \$126.1 million for the year ended December 31, 2008. Of the \$0.4 million decrease, \$3.0 million was related to a decrease in practice administration expense, \$2.5 million was related to promotion and marketing expense and \$1.8 million was related to a decrease in recruiting and training expense. Additionally, share-based compensation expense associated with our non-revenue-generating professionals decreased from \$10.6 million in 2008 to \$5.2 million in 2009. These decreases were partially offset by increases in non-revenue generating professionals and their related compensation and benefits costs of \$9.2 million, an increase of \$1.1 million attributable to increased severance charges, an increase of \$1.0 million attributable to higher facilities cost and an increase of \$1.2 million due to an increase in charitable contributions.

In response to current market conditions and lowered revenue expectations, during the third quarter of 2009, we initiated a cost reduction program to align our cost structure with anticipated demand. This cost reduction effort is estimated to result in an annualized \$30 million reduction in expenses and is primarily comprised of labor related cost savings including salary, benefits and bonus resulting from a reduction in the number of our revenue-generating employees. These efforts are expected to allow us to maintain appropriate operating margins while paying adequate bonuses. Restructuring expense, consisting of severance charges, was \$3.1 million in 2009. Restructuring expense in the same period in the prior year was \$2.3 million.

Expenses incurred in connection with our restatement, discussed above under Restatement of Previously-Issued Financial Statements, totaled \$17.5 million for the year ended December 31, 2009. Expenses incurred in connection with the restatement are primarily comprised of legal and accounting fees, as well the settlement costs of an indemnification claim arising in connection with a representation and warranty in a purchase agreement for a previous acquisition.

Depreciation expense increased \$1.6 million, or 10.5%, to \$16.9 million for the year ended December 31, 2009 from \$15.3 million for the same period in the previous year as computers, network equipment, furniture and fixtures, and leasehold improvements were added to support our increase in employees. Non-direct intangible assets amortization expense decreased \$2.3 million, or 30.3%, to \$5.3 million for 2009 from \$7.6 million for 2008. Non-direct intangible assets amortization relates to customer relationships, non-competition agreements and tradenames acquired in connection with our acquisitions.

As discussed above under Restatement of Previously-Issued Financial Statements, we engaged in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements in the third quarter of 2009. We recorded a \$106.0 million non-cash pretax charge for the impairment of goodwill to reduce the carrying value of goodwill in our Accounting and Financial Consulting reporting unit (\$59.0 million) and our Corporate Consulting reporting unit (\$47.0 million). Of the \$106.0 million impairment charge, \$39.0 million relates to the discontinued operations of the Corporate Consulting reporting unit and is reported in the loss from discontinued operations for the year ended December 31, 2009, resulting in \$67.0 million of the \$106.0 million impairment charge reported as operating expense for the year ended December 31, 2009. The impairment charge is non-cash in nature and does not affect the Company's liquidity or covenant compliance.

During 2009, we recognized gains totaling \$4.8 million relating to the release of employee non-solicitation agreements and settlement of other contractual obligations.

**Operating income**

Operating income decreased \$52.4 million to an operating loss of \$2.6 million for the year ended December 31, 2009 from operating income of \$49.8 million for the year ended December 31, 2008. Operating

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margin, defined as operating income expressed as a percentage of revenues, decreased to (0.4%) for 2009 compared to 8.7% for 2008. The decrease in operating margin was primarily attributable to the goodwill impairment charge and restatement related expenses, partially offset by lower non-cash compensation expense in 2009 compared to 2008, and gains from the settlement of contractual obligations discussed above.

As described above under **Restatement of Previously-Issued Financial Statements**, no further Shareholder Payments or Employee Payments will be made as a result of amendments to the agreements among the selling shareholders effective August 1, 2009, and earn-outs for the period after August 1, 2009 are accounted for as additional purchase consideration and not also as non-cash compensation expense. We recognized \$8.3 million of non-cash compensation expense during 2009 related to Shareholder Payments and Employee Payments, \$7.5 million of which was included in continuing operations. We expect to incur a moderate increase in cash compensation expense in future periods related to Shareholder Payments and Employee Payments for such periods, which we currently estimate to be no more than \$4 million in each of 2010 and 2011. Additionally, as a result of the impact that our restatement may have on our business, we expect to incur a moderate increase in cash and share-based compensation expense to retain our top-performing employees. We also expect an increase in operating expenses, including legal fees, as a result of the Company's inquiries into the acquisition-related payments and the allocation of time within a certain practice group, the restatement, the SEC investigation with respect to the restatement, the SEC investigation into the allocation of time within a certain practice group, the USAO's request for certain documents and the purported private shareholder class action lawsuit and derivative lawsuits in respect of the restatement. To the extent permitted by law, our by-laws 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.

**Other expense**

Other expense decreased \$6.2 million, or 37.4%, to \$10.4 million for the year ended December 31, 2009 from \$16.6 million in the same period in the prior year. The \$6.2 million decrease was primarily due to the following:

- \$3.6 million gain from an increase in the market value of our investments that are used to fund our deferred compensation liability. This gain was offset by an increase in direct costs as our corresponding deferred compensation liability increased.
- \$1.1 million was due to the change in net foreign currency transaction gains as we reported a net gain of \$0.2 million in 2009 compared to a net loss of \$0.9 million in the prior year.
- \$1.5 million was attributable to a decrease in interest expense from a decrease in interest rates, partially offset by higher levels of borrowings during 2009.

As further described below under **Liquidity and Capital Resources**, the fees and interest we pay on outstanding borrowings vary based on our total debt to EBITDA ratio as set forth in the Credit Agreement. As a result of our restatement, our historical EBITDA decreased resulting in higher fees and interest expense for certain historical periods totaling \$0.1 million. We recognized this amount in the second quarter of 2009. Additionally, the fees and interest expense we pay on outstanding borrowings in the future may exceed those paid historically as a result of a decrease in our EBITDA and the impact of a lower EBITDA on the total debt to EBITDA ratio, and also as a result of the amendment to the Credit Agreement as described below in **Liquidity and Capital Resources** **Financing activities**.





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### **Income tax expense**

Our effective income tax rate decreased to 11.8% in 2009 from 83.4% in 2008 primarily due to a loss from continuing operations in 2009 compared with income from continuing operations in 2008. For the year ended December 31, 2009, we recognized income tax expense from continuing operations of \$1.5 million on a loss from continuing operations of \$13.0 million primarily due to non-deductible non-cash compensation expense, goodwill, and meals and entertainment coupled with certain foreign losses with no tax benefit and a change in state tax rate. This was partially offset by income tax benefits related to the release of valuation allowances attributable to foreign operations and realized investment gains for deferred compensation plans. For the year ended December 31, 2008, we recognized income tax expense of \$27.8 million on income from continuing operations of \$33.3 million. Non-cash compensation expense, as described above under Restatement of Previously-Issued Financial Statements, totaled \$7.5 million in 2009 and \$26.5 million in 2008 and is not tax deductible because these payments were not made by us.

### **Net income (loss) from continuing operations**

Net loss from continuing operations was \$14.5 million for the year ended December 31, 2009 compared to net income of \$5.5 million for the year ended December 31, 2008. The decrease in net income from continuing operations in 2009 was primarily due to the \$67.0 million goodwill impairment charge and the \$17.5 million of restatement related expenses, partially offset by lower non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, coupled with a lower effective income tax rate as described above. Loss per share from continuing operations for the year ended December 31, 2009 was \$0.72 compared to diluted earnings per share from continuing operations of \$0.29 for the year ended December 31, 2008. The decrease in earnings per share was attributable to the goodwill impairment charge and restatement related expenses described above, partially offset by lower non-cash compensation expense and a \$4.8 million gain related to the release of employee non-solicitation agreements and settlement of other contractual obligations.

### **Discontinued operations**

In December 2009, our Board of Directors approved a plan to divest two businesses within the Accounting and Financial Consulting and Corporate Consulting operating segments. As part of the strategy to focus on our core businesses, we have committed to a plan to sell the portion of the international operations that include the office and respective operations in Japan, which is a component of both the Accounting and Financial Consulting and Corporate Consulting segments. Additionally, on December 31, 2009 we completed the sale of Galt, a strategy business within the Corporate Consulting segment which was acquired in April 2006, back to its three principals. As a result of these actions, the operating results of Japan and Galt are reported as discontinued operations for 2009 in accordance with FASB ASC Topic 205 Presentation of Financial Statements. Amounts previously reported have been reclassified to conform with this presentation to allow for meaningful comparison. See note 4. Discontinued Operations under Part II Item 8. Financial Statements and Supplementary Data for additional information.

### **Segment Results**

#### **Health and Education Consulting**

**Revenues**

Health and Education Consulting segment revenues increased \$104.5 million, or 38.8%, to \$373.9 million for the year ended December 31, 2009 from \$269.4 million for the previous year. Revenues for 2009 included a full year of revenue from our acquisition of Stockamp while revenues for 2008 included revenues from Stockamp for slightly less than six months as Stockamp was acquired on July 8, 2008. Revenues from time-and-expense engagements, fixed-fee engagements, performance-based engagements and software

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support and maintenance arrangements represented 22.2%, 52.4%, 22.9% and 2.5% of this segment's revenues during 2009, respectively, compared to 38.6%, 51.2%, 8.8% and 1.4%, respectively, for the comparable period in 2008.

Of the overall \$104.5 million increase in revenues, \$94.3 million was attributable to our full-time billable consultants and \$10.2 million was attributable to our full-time equivalents. The \$94.3 million increase in full-time billable consultant revenues reflected an increase in the average number of consultants and the average billing rate per hour for this segment primarily due to performance-based revenues recognized in the period upon meeting performance criteria associated with several Stockamp engagements. Additionally, subsequent to the acquisition of Stockamp there was a delay in our ability to recognize performance-based revenue due to the timing of the implementation of processes to ensure the performance-based revenue was recognized in accordance with GAAP. As a result, we recognized more performance-based revenue in 2009 than in the comparable period in 2008. These increases were partially offset by a decrease in the utilization rate for this segment. Performance-based fee engagements may cause significant variations in quarterly revenues and operating results due to the timing of achieving the performance-based criteria.

## **Operating income**

Health and Education Consulting segment operating income increased \$50.4 million, or 55.4%, to \$141.3 million for the year ended December 31, 2009 from \$90.9 million for the year ended December 31, 2008. The Health and Education Consulting segment operating margin, defined as segment operating income expressed as a percentage of segment revenues, increased to 37.8% for 2009 from 33.7% in the previous year. The increase in this segment's operating margin was attributable to lower non-cash compensation expense, lower share-based compensation expense as a percentage of revenues, and a gain relating to the settlement of contractual obligations. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Health and Education Consulting segment totaled \$5.6 million and \$15.0 million in 2009 and 2008, respectively, and reduced this segment's operating margin by 149 basis points and 555 basis points in 2009 and 2008, respectively.

## **Accounting and Financial Consulting**

### **Revenues**

Accounting and Financial Consulting segment revenues decreased \$38.4 million, or 27.9%, to \$99.4 million for the year ended December 31, 2009 from \$137.7 million for the year ended December 31, 2008. Revenues from time-and-expense engagements and fixed-fee engagements represented 94.0% and 6.0% of this segment's revenues during 2009, respectively. For 2008, 96.3% of this segment's revenues were from time-and-expense engagements and 3.7% were from fixed-fee engagements.

Of the overall \$38.4 million decrease in revenues, \$21.2 million was attributable to our full-time billable consultants and \$17.2 million was attributable to our full-time equivalents. The \$21.2 million decrease in full-time billable consultant revenues was primarily due to a decrease in demand for our consulting services, which we believe is primarily attributable to the current economic environment, and a decrease in the average billing rate per hour for this segment, partially offset by an increase in utilization. The \$17.2 million decrease in full-time equivalent revenues resulted from a decline in demand for our variable, on-demand consultants.

**Operating income**

Accounting and Financial Consulting segment operating income decreased \$6.2 million, or 27.7%, to \$16.3 million for the year ended December 31, 2009 from \$22.5 million for the year ended December 31, 2008.

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Segment operating margin increased slightly to 16.4% for 2009 from 16.3% in the previous year. The increase in this segment's operating margin was attributable to lower non-cash compensation expense and a gain related to the settlement of contractual obligations, offset by higher cash-compensation cost as a percentage of revenues. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Accounting and Financial Consulting segment totaled \$1.9 million and \$11.6 million in 2009 and 2008, respectively, and reduced this segment's operating margin by 190 basis points and 838 basis points in 2009 and 2008, respectively.

### **Legal Consulting**

#### **Revenues**

Legal Consulting segment revenues decreased \$6.6 million, or 5.4%, to \$114.8 million for the year ended December 31, 2009 from \$121.4 million for the year ended December 31, 2008. Revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 90.2%, 9.7% and 0.1% of this segment's revenues during 2009, respectively, compared to 91.2%, 7.9% and 0.9%, respectively, for the previous year.

Of the overall \$6.6 million decrease in revenues, \$12.1 million was attributable to our full-time billable consultants, which was partially offset by a \$5.5 million increase attributable to our full-time equivalents. The \$12.1 million decrease in full-time billable consultant revenues reflected a decrease in both the utilization rate and the average billing rate per hour for this segment. The \$5.5 million increase in full-time equivalent revenues reflected an increased demand for our document review services.

#### **Operating income**

Legal Consulting segment operating income decreased \$15.8 million, or 41.7%, to \$22.0 million for the year ended December 31, 2009 from \$37.8 million for the year ended December 31, 2008. Segment operating margin decreased to 19.2% for 2009 from 31.1% in the previous year. The decrease in this segment's operating margin was attributable to higher total compensation cost as a percentage of revenues, coupled with an increased level of expense related to investment in personnel, infrastructure, technology and other resources for our document review business.

### **Corporate Consulting**

#### **Revenues**

Corporate Consulting segment revenues decreased \$4.6 million, or 10.2%, to \$40.6 million for the year ended December 31, 2009 from \$45.3 million for the year ended December 31, 2008. Revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 93.1%, 4.5% and 2.4% of this segment's revenues during 2009, respectively, compared to 77.8%, 19.0% and 3.2%,

respectively, for the previous year.

The \$4.6 million decrease in revenues was primarily attributable to our full-time billable consultant revenues, reflecting an overall decrease in demand and a decrease in the number of consultants for this segment, partially offset by an increase in the utilization rate and average billing rate per hour for this segment.

**Operating income**

Corporate Consulting segment operating income increased \$5.6 million, or 93.0%, to \$11.7 million for the year ended December 31, 2009 compared to \$6.0 million for the year ended December 31, 2008. Segment

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operating margin increased to 28.7% for 2009 from 13.4% in the previous year. The increase in this segment's operating margin was attributable to lower total compensation cost as a percentage of revenues, decreased share-based compensation expense and a decrease in restructuring expense in 2009 compared to 2008.

### **Year ended December 31, 2008 compared to year ended December 31, 2007**

#### **Revenues**

Revenues increased \$98.0 million, or 20.6%, to \$573.8 million for the year ended December 31, 2008 from \$475.8 million for the year ended December 31, 2007. We acquired Stockamp on July 8, 2008 and, therefore, revenues for 2008 included six months of revenues generated by Stockamp while revenues for 2007 did not include any revenues from Stockamp. We acquired Callaway on July 29, 2007 and therefore, revenues for 2008 included twelve months of revenues generated by Callaway while revenues for 2007 included five months of revenues generated by Callaway.

Of the overall \$98.0 million increase in revenues, \$54.6 million was attributable to our full-time billable consultants and \$43.4 million was attributable to our full-time equivalents. Full-time equivalents consist of finance and accounting consultants, specialized operational consultants and contract reviewers, all of whom work variable schedules as needed by our clients. Full-time equivalents also include our document review and electronic data discovery groups, as well as full-time employees who provide software support and maintenance services to our clients. The \$54.6 million increase in full-time billable consultant revenues was attributable to an increase in the number of consultants, particularly in our Health and Education Consulting segment resulting from internal growth and our acquisition of Stockamp, partially offset by a decline in both the utilization rate and the average billing rate of our consultants. The \$43.4 million increase in full-time equivalent revenues resulted from greater demand and usage of contract reviewers in our document review group, as well as from our acquisition of Callaway, which heavily utilizes variable, on-demand consultants.

During 2008, our Accounting and Financial Consulting segment experienced a 13.5% decline in revenues as we had several large engagements that wound down and which have not been replaced by similarly-sized engagements. This decline in revenues was more than offset by increases in revenues in our Health and Education and Legal Consulting segments as demand for healthcare and electronic discovery services continue to grow.

#### **Total direct costs**

Our direct costs increased \$72.5 million, or 24.7%, to \$365.9 million for the year ended December 31, 2008 from \$293.4 million for the year ended December 31, 2007. Approximately \$44.8 million of the increase was attributable to the increase in the average number of revenue-generating professionals and the promotion of our employees during the year, including ten to the managing director level effective January 1, 2008, and their related salaries and benefits costs. Additionally, \$10.8 million of the increase in direct costs was attributable to an increased usage of independent contractors. Share-based compensation expense associated with our revenue-generating professionals increased \$4.0 million, or 33.1%, to \$16.0 million during 2008 from \$12.0 million during 2007. Additionally, we recorded non-cash compensation expense totaling \$26.5 million and \$15.0 million during 2008 and 2007, respectively, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements.



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Total direct costs for the year ended December 31, 2008 included \$6.6 million of intangible assets amortization expense, representing customer-related assets and software acquired in connection with the Stockamp acquisition. Total direct costs for the year ended December 31, 2007 included \$8.0 million of intangible assets amortization expense, primarily attributable to customer contracts acquired in connection with the acquisitions of Wellspring, Glass and Callaway, all of which were fully amortized during 2007.

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### **Operating expenses**

Selling, general and administrative expenses increased \$26.7 million, or 26.9%, to \$126.1 million for the year ended December 31, 2008 from \$99.4 million for the year ended December 31, 2007. Promotional and marketing expenses increased \$4.2 million, or 29.8%, to \$18.3 million for 2008 from \$14.1 million for 2007, as we continued to build our brand. Approximately \$4.2 million of the increase in selling, general and administrative costs was due to an increase in non-revenue-generating professionals and their related compensation and benefits costs. We added a number of non-revenue-generating professionals during the past year to support our growth. The remaining increase in selling, general and administrative costs during 2008 compared to 2007 was due to a \$4.0 million increase in facilities costs, a \$2.9 million increase in share-based compensation expense, a \$2.8 million increase attributable to company and team meetings, and a \$2.8 million increase in our provision for bad debt. Additionally, during the third quarter of 2008, we reduced our workforce to balance our employee base with current revenue expectations, market demand and areas of focus. This reduction included the elimination of the operational consulting group within the Corporate Consulting segment and a reduction in the number of consultants in various other practice groups. Restructuring charges associated with these actions were \$2.3 million for the year ended December 31, 2008.

Depreciation expense increased \$4.4 million, or 40.4%, to \$15.3 million for the year ended December 31, 2008 from \$10.9 million for the year ended December 31, 2007 as computers, network equipment, furniture and fixtures, and leasehold improvements were added to support our increase in employees. Non-direct intangible assets amortization expense for 2008 and 2007 was \$7.6 million and \$6.3 million, respectively. The increase in 2008 was attributable to amortization of intangible assets, including customer relationships, non-competition agreements and tradenames acquired in connection with our acquisitions.

### **Operating income**

Operating income decreased \$8.1 million, or 14.0%, to \$49.8 million for the year ended December 31, 2008 from \$58.0 million for the year ended December 31, 2007. Operating margin decreased to 8.7% in 2008 from 12.2% in 2007. The decline in operating margin was attributable to higher non-cash compensation expense and selling, general and administrative expenses as a percentage of revenues, coupled with the restructuring charges described above. Non-cash compensation expense totaling \$26.5 million in 2008 and \$15.0 million in 2007, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously Issued Financial Statements, reduced our operating margin by 462 basis points in 2008 and 315 basis points in 2007.

### **Other expense**

Other expense increased \$8.3 million, or 100.9%, to \$16.6 million for the year ended December 31, 2008 from \$8.2 million for the year ended December 31, 2007. Of the \$8.3 million increase, \$5.5 million was attributable to an increase in interest expense from higher levels of borrowings during 2008, partially offset by a decrease in interest rates. Additionally, we incurred a \$1.8 million loss due to a decline in the market value of our investments that are used to fund our deferred compensation liability. This loss was largely offset by a \$1.5 million reduction in direct costs as our corresponding deferred compensation liability decreased. The remaining increase in other expense was due to net foreign currency transaction losses totaling \$0.9 million.

As further described below under Liquidity and Capital Resources , the fees and interest we pay on outstanding borrowings vary based on our total debt to EBITDA ratio as set forth in the Credit Agreement. As a result of our restatement, our historical EBITDA decreased resulting in

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higher fees and interest expense for certain historical periods totaling \$0.1 million. We recognized this amount in the second quarter of 2009. Additionally, the fees and interest expense we pay on outstanding borrowings in the future may exceed those paid historically as a result of a decrease in our EBITDA and the impact of a lower EBITDA on the total debt to EBITDA ratio.

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### **Income tax expense**

Our effective income tax rate increased to 83.4% in 2008 from 57.2% in 2007. The higher effective income tax rate in 2008 was attributable to an increase in non-deductible non-cash compensation expense, foreign tax credit limitations resulting from our expansion in foreign markets, and the non-deductibility of certain items including market losses related to investments used to fund our deferred compensation liability. Non-cash compensation expense, as described above under *Restatement of Previously-Issued Financial Statements*, totaled \$26.5 million in 2008 and \$15.0 million in 2007 and is not tax deductible because these payments were not made by us.

### **Net income from continuing operations**

Net income decreased \$15.8 million, or 74.0%, to \$5.5 million for the year ended December 31, 2008 from \$21.3 million for the year ended December 31, 2007, primarily due to higher non-cash compensation expense in 2008, representing Shareholder Payments and Employee Payments as described above under *Restatement of Previously-Issued Financial Statements*. Income from continuing operations per diluted share decreased 75.4% to \$0.29 for the year ended December 31, 2008 from \$1.18 for the year ended December 31, 2007. The decrease in earnings per share was attributable to the decrease in net income from continuing operations, coupled with the dilutive impact of the shares issued in connection with the acquisition of Stockamp and the amendment to the Wellspring Stock Purchase Agreement. Non-cash compensation expense reduced income from continuing operations per diluted share by \$1.39 in 2008 and \$0.83 in 2007.

### **Segment Results**

#### **Health and Education Consulting**

##### **Revenues**

Health and Education Consulting segment revenues increased \$91.7 million, or 51.6%, to \$269.4 million for the year ended December 31, 2008 from \$177.7 million for the year ended December 31, 2007. Revenues for 2008 included six months of revenues from our acquisition of Stockamp while revenues for 2007 did not include any revenues from Stockamp. For 2008, revenues from time-and-expense engagements, fixed-fee engagements, performance-based engagements and software and maintenance arrangements represented 38.6%, 51.2%, 8.8% and 1.4% of this segment's revenues, respectively, compared to 50.3%, 45.7%, 4.0% and 0%, respectively, for 2007.

Of the overall \$91.7 million increase in revenues, \$91.1 million was attributable to our full-time billable consultants and \$0.6 million was attributable to our full-time equivalents. The \$91.1 million increase in full-time billable consultant revenues reflected an increase in the number of consultants, partially offset by a decrease in the average billing rate per hour for this segment.

##### **Operating income**

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Health and Education Consulting segment operating income increased \$39.2 million, or 75.8%, to \$90.9 million for the year ended December 31, 2008 from \$51.7 million for the year ended December 31, 2007. The Health and Education Consulting segment operating margin increased to 33.7% in 2008 from 29.1% in 2007, primarily due to lower non-cash compensation expense and a decrease in independent contractor expense as a percentage of revenues. This increase was partially offset by higher promotion and marketing expense. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Health and Education Consulting segment totaled \$15.0 million and \$12.8 million in 2008 and 2007, respectively, and reduced this segment's operating margin by 555 basis points in 2008 and 721 basis points in 2007.

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### **Accounting and Financial Consulting**

#### **Revenues**

Accounting and Financial Consulting segment revenues decreased \$21.5 million, or 13.5%, to \$137.7 million for the year ended December 31, 2008 from \$159.2 million for the year ended December 31, 2007. We acquired Callaway on July 29, 2007 and therefore, revenues for 2008 included revenues generated by Callaway while revenues for 2007 included five months of revenues generated by Callaway. For both 2008 and 2007, most of this segment's revenues were from time-and-expense engagements.

Of the overall \$21.5 million decrease in revenues, \$34.7 million was attributable to our full-time billable consultants, which was partially offset by an increase of \$13.2 million attributable to our full-time equivalents. The \$34.7 million decrease in full-time billable consultant revenues was primarily due to a decline in both the utilization rate and the average billing rate per hour for this segment. The \$13.2 million increase in full-time equivalent revenues resulted from our acquisition of Callaway, which heavily utilizes variable, on demands consultants.

#### **Operating income**

Accounting and Financial Consulting segment operating income decreased \$37.8 million, or 62.7%, to \$22.5 million for the year ended December 31, 2008 from \$60.3 million for the year ended December 31, 2007. Operating margin for the Accounting and Financial Consulting segment decreased to 16.3% in 2008 from 37.9% in 2007. The decline was attributable to higher non-cash compensation expense and lower utilization of this segment's full-time billable consultants as we added a number of consultants in the previous years to staff several large engagements and to support our anticipated growth. These large engagements have since wound down and have not been replaced by similarly-sized engagements. The decline in operating margin was also attributable to a lower average billing rate per hour for this segment as described above. Higher share-based compensation expense and promotion and marketing expense also contributed to the decline in this segment's operating margin. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Accounting and Financial Consulting segment totaled \$11.6 million and \$2.2 million in 2008 and 2007, and reduced this segment's operating margin by 838 basis points in 2008 and 137 basis points in 2007.

### **Legal Consulting**

#### **Revenues**

Legal Consulting segment revenues increased \$31.6 million, or 35.1%, to \$121.4 million for the year ended December 31, 2008 from \$89.8 million for the year ended December 31, 2007. For 2008, revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 91.2%, 7.9% and 0.9% of this segment's revenues, respectively, compared to 90.8%, 7.7% and 1.5%, respectively, for 2007.

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Of the overall \$31.6 million increase in revenues, \$1.7 million was attributable to our full-time billable consultants and \$29.9 million was attributable to our full-time equivalents. The \$1.7 million increase in full-time billable consultant revenues reflected an increase in the average number of consultants, which was largely offset by a decline in both the utilization rate and the average billing rate per hour for this segment. The \$29.9 million increase in full-time equivalent revenues reflects greater demand for our document review services.

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### **Operating income**

Legal Consulting segment operating income increased \$9.5 million, or 33.5%, to \$37.8 million for the year ended December 31, 2008 from \$28.3 million for the year ended December 31, 2007. Operating margin for the Legal Consulting segment remained steady at 31.1% in 2008 compared to 31.5% in 2007.

### **Corporate Consulting**

#### **Revenues**

Corporate Consulting segment revenues decreased \$3.7 million, or 7.6%, to \$45.3 million for the year ended December 31, 2008 from \$49.0 million for the year ended December 31, 2007. For 2008, revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 77.8%, 19.0% and 3.2% of this segment's revenues, respectively, compared to 69.0%, 25.0% and 5.9%, respectively, for 2007.

Of the overall \$3.7 million decrease in revenues, \$3.5 million was attributable to our full-time billable consultants and \$0.2 million was attributable to our full-time equivalents. The \$3.5 million decrease in full-time billable consultant revenues reflected a decrease in the average number of consultants and a decline in the utilization rate of this segment's billable consultants.

### **Operating income**

Corporate Consulting segment operating income decreased \$1.9 million, or 24.0%, to \$6.1 million for the year ended December 31, 2008 from \$8.0 million for the year ended December 31, 2007. Operating margin for the Corporate Consulting segment decreased to 13.4% in 2008 from 16.2% in 2007. This decline was primarily attributable to the \$2.0 million restructuring charges taken during 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents decreased \$7.6 million, from \$14.1 million at December 31, 2008, to \$6.5 million at December 31, 2009. Cash and cash equivalents increased \$11.1 million, from \$3.0 million at December 31, 2007, to \$14.1 million at December 31, 2008. Our primary sources of liquidity are cash flows from operations and debt capacity available under our credit facility.

### **Operating activities**



Cash flows provided by operating activities totaled \$120.1 million, \$101.2 million and \$55.9 million for the years ended December 31, 2009, 2008 and 2007. Our operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable and accrued expenses, net income tax receivables and accrued payroll and related benefits. The volume of services rendered and the related billings and timing of collections on those billings, as well as payments of our accounts payable affect these account balances. The increase in cash flow from operations in 2009 was attributable to an increase in accrued payroll and related benefits, primarily resulting from higher performance bonus accruals as of December 31, 2009 compared to the prior year. This increase was partially offset by an increase in our income tax receivable resulting from the December 31, 2009 sale of Galt. Our days sales outstanding, which is a measure of the average number of days that we take to collect our receivables, increased from 57 days in 2008 to 60 days in 2009.

The increase in cash provided by operations during 2008 was attributable to us collecting cash on our receivables more quickly during 2008 as compared to 2007. Additionally, deferred revenues increased during 2008 due to a higher level of advanced billings and collections. Our days sales outstanding decreased from

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67 days in 2007 to 57 days in 2008. The increase in advanced billings and the decrease in days sales outstanding were largely due to our integration of Stockamp, which has a practice of billing its clients in advance. The increase in cash provided by operating activities was also attributable to lower estimated tax payments during 2008 as we made an overpayment of taxes in 2007 that was subsequently applied to 2008. These increases in cash were partially offset by lower accrued bonuses at December 31, 2008 compared to December 31, 2007.

### **Investing activities**

Cash used in investing activities was \$64.6 million, \$250.9 million and \$189.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. The use of cash in 2009 primarily consisted of \$51.6 million for the purchase of businesses, primarily related to payments of additional purchase consideration earned by the selling shareholders of businesses that we acquired, totaling \$49.4 million. The use of cash in 2008 primarily consisted of \$168.5 million for the acquisition of Stockamp, \$23.0 million for the buy-out of an earn-out provision, and payments of additional purchase consideration earned by the selling shareholders of businesses that were acquired totaling \$32.8 million. The use of cash in 2007 primarily related to the acquisitions of Wellspring, Glass and Callaway. The use of cash in 2009, 2008, and 2007 also included purchases of property and equipment needed to meet the ongoing needs relating to the hiring of additional employees and the expansion of office space. We estimate that the cash utilized for capital expenditures in 2010 will be approximately \$15 million, primarily for computer equipment. We also expect to continue to invest in capital expenditures related to our document review and processing business.

### **Financing activities**

Cash used in financing activities was \$62.7 million for the year ended December 31, 2009. Cash provided by financing activities was \$161.5 million and \$119.8 million for the years ended December 31, 2008 and 2007, respectively. During 2009, 2008 and 2007 upon the vesting of restricted stock awards, we redeemed 74,263, 107,759 and 146,100, respectively, shares of our common stock at an average stock price of \$42.75, \$57.18 and \$69.02, respectively, to satisfy employee tax withholding requirements.

Prior to the September 30, 2009 Eighth Amendment to the Credit Agreement discussed below, we could borrow up to \$460.0 million under the Credit Agreement. In addition, the Credit Agreement had an accordion feature allowing for an additional amount of up to \$60.0 million to be borrowed upon approval from the lenders. Prior to the entry into the Eighth Amendment to the Credit Agreement, the Credit Agreement consisted of a \$240.0 million revolving credit facility ( Revolver ) and a \$220.0 million term loan facility ( Term Loan ), which was drawn in a single advance of \$220.0 million on July 8, 2008 to fund, in part, our acquisition of Stockamp.

On September 30, 2009, we entered into the Eighth Amendment to the Credit Agreement which amended, among other items, the following terms:

1. Reduced the maximum amount of principal that may be borrowed under the Revolver by \$60 million from \$240 million to \$180 million, and eliminated the \$60 million accordion feature that was available under the Credit Agreement. The borrowing capacity continues to be reduced by any outstanding letters of credit.
2. Increased the LIBOR spread, base rate spread and letters of credit fee by 75 basis points in each case and increased the non-use fee from a range of 30 to 50 basis points to a flat 50 basis points.

3. Decreased the maximum leverage ratio from 3.00:1.00 to 2.75:1.00 effective December 31, 2010, lowered the minimum fixed charge coverage ratio from 2.50:1.00 to 2.35:1.00 effective September 30, 2009 and added a financial covenant requiring minimum net worth to be greater than zero.

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4. Modified the definition of consolidated EBITDA by, among other items, allowing for the add back of non-cash goodwill impairment charges and other acquisition-related intangible asset impairment charges, non-cash restructuring charges, and non-cash compensation charges for the periods ending up to and including September 30, 2009. Beyond September 30, 2009, we are limited on the future add back of non-cash goodwill and acquisition-related intangible asset impairment charges up to the lesser of \$30 million or 15% of net worth.

Also on September 30, 2009, we entered into the Security Agreement with Bank of America as Administrative Agent. The Security Agreement is required by the terms of the Eighth Amendment to the Credit Agreement in order to secure the obligations thereunder, and grants Bank of America, for the ratable benefit of the lenders under the Eighth Amendment to the Credit Agreement, a first-priority lien, subject to permitted liens, on substantially all of the personal property assets of the Company and the subsidiary grantors. Prior to our entry into the Security Agreement, the Revolver and Term Loan were secured by a pledge of 100% of the voting stock or other equity interests in our domestic subsidiaries and 65% of the voting stock or other equity interests in our foreign subsidiaries (collectively, the Equity Pledge). Following entry into the Security Agreement, the Revolver and Term Loan are secured by the Equity Pledge and by the first-priority lien, subject to permitted liens, on substantially all of our personal property assets and those of our subsidiary grantors.

The borrowing capacity under the Credit Agreement is reduced by any outstanding letters of credit and payments under the Term Loan. At December 31, 2009, outstanding letters of credit totaled \$4.5 million and are used as security deposits for our office facilities. As of December 31, 2009, the borrowing capacity under the Credit Agreement was \$143.5 million.

Fees and interest on borrowings vary based on our total debt to EBITDA ratio as set forth in the Credit Agreement. Interest is based on a spread, ranging from 2.25% to 3.25%, as amended, over the LIBOR or a spread, ranging from 1.25% to 2.25%, as amended, over the base rate (which is the greater of the Federal Funds Rate plus 0.50% or the Prime Rate), as selected by us. The Term Loan is subject to amortization of principal in fifteen consecutive quarterly installments that began on September 30, 2008, with the first fourteen installments being \$5.5 million each. The fifteenth and final installment will be the amount of the remaining outstanding principal balance of the Term Loan and will be payable on February 23, 2012, but can be repaid earlier. All outstanding borrowings under the Revolver will be due upon expiration of the Credit Agreement on February 23, 2012.

Under the Credit Agreement, dividends are restricted to an amount up to 50% of consolidated net income (adjusted for non-cash share-based compensation expense) for such fiscal year, plus 50% of net cash proceeds during such fiscal year with respect to any issuance of capital securities. In addition, certain acquisitions and similar transactions need to be approved by the lenders. The Credit Agreement includes quarterly financial covenants that require us to maintain a minimum fixed charge coverage ratio of 2.35 to 1.00 and a maximum leverage ratio of 3.00 to 1.00 as of September 30, 2009 and decreasing to 2.75:1.00 effective December 31, 2010, as those ratios are defined in the Credit Agreement as well as a minimum net worth greater than zero. At December 31, 2009, we were in compliance with these financial covenants with a fixed charge coverage ratio of 2.76 to 1.00 and a leverage ratio of 1.82 to 1.00 and net worth greater than zero.

During 2009, 2008 and 2007, we made borrowings to pay bonuses and additional purchase consideration earned by selling shareholders of businesses that we acquired. We also made borrowings to fund our daily operations. During the year ended December 31, 2009, the average daily outstanding balance under our credit facility was \$291.5 million. Borrowings outstanding under this credit facility at December 31, 2009 totaled \$219.0 million, all of which are classified as long-term on our consolidated balance sheet as the principal under the Revolver is not due until 2012 and we intend to fund scheduled quarterly payments under the Term Loan with availability under the Revolver. These borrowings carried a weighted-average interest rate of 4.0%, which we expect will increase in the future due to the terms of the Credit Agreement, as amended, discussed above

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including the effect of the interest rate swap described below in Item 7A. Quantitative and Qualitative Disclosures About Market Risk. Borrowings outstanding at December 31, 2008 totaled \$280.0 million and carried a weighted-average interest rate of 3.1%. At both December 31, 2009 and December 31, 2008, we were in compliance with our debt covenants. In addition, based upon projected operating results, management believes it is probable that we will meet the financial debt covenants of the Credit Agreement discussed above, as amended, at future covenant measurement dates.

See note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Part II Item 8. Financial Statements and Supplementary Data for a discussion of certain matters related to the Credit Agreement and our borrowings thereunder in light of the restatement, as well as Part I Item 1A. Risk Factors for a discussion of the risks relating to the Credit Agreement and the Security Agreement.

**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. In connection with our past business acquisitions, we are required under earn-out provisions to pay additional purchase consideration to the sellers if specific financial performance targets are met. We also have cash needs to service our credit facility and repay our term loan. Further, we have other cash commitments as presented below in contractual obligations. Because we expect that our future annual growth rate in revenues and related percentage increases in working capital balances will moderate, we believe our internally generated liquidity, together with 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 earn-out provisions, 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, which declined significantly during 2008 and 2009 and may continue to decline in 2010.

**CONTRACTUAL OBLIGATIONS**

The following table represents our obligations and commitments to make future payments under contracts, such as lease agreements, and under contingent commitments as of December 31, 2009 (in thousands).

|                                       | Less than<br>1 year<br>(2010) | 1-3 years<br>(2011 to<br>2012) | 3-5 years<br>(2013 to<br>2014) | More than<br>5 years<br>(2015 and<br>thereafter) | Total             |
|---------------------------------------|-------------------------------|--------------------------------|--------------------------------|--|-------------------|
| Additional purchase consideration     | \$ 63,188                     | \$                             | \$                             | \$   | \$ 63,188         |
| Liability for uncertain tax positions | 605                           |                                |                                |  | 605               |
| Purchase obligations                  | 5,004                         | 1,523                          |                                |  | 6,527             |
| Capital lease obligations             | 289                           | 72                             |                                |  | 361               |
| Long-term bank borrowings             |                               | 219,000                        |                                |  | 219,000           |
| Operating lease obligations           | 18,377                        | 29,084                         | 20,998                         | 11,685   | 80,144            |
| <b>Total contractual obligations</b>  | <b>\$ 87,463</b>              | <b>\$ 249,679</b>              | <b>\$ 20,998</b>               | <b>\$ 11,685</b>                                 | <b>\$ 369,825</b> |

In connection with certain business acquisitions, we are required to pay additional purchase consideration to the sellers if specific financial performance targets and conditions are met over a number of years as specified in the related purchase agreements. These amounts are calculated and payable at the end of each year based on full year financial results. There is no limitation to the maximum amount of additional purchase

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consideration and future amounts are not determinable at this time, but the aggregate amount that potentially may be paid could be significant.

As of December 31, 2009, our current and non-current liabilities for uncertain tax positions are \$0.6 million and \$1.0 million, respectively. We are unable to reasonably estimate the timing of future cash flows related to the non-current portion as it is dependent on examinations by taxing authorities.

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

Borrowings outstanding under our credit facility at December 31, 2009 totaled \$219.0 million, all of which we have classified as long-term on our consolidated balance sheet as the principal under the Revolver is not due until 2012 and we intend to fund scheduled quarterly payments under the Term Loan with availability under the Revolver. As described above under Liquidity and Capital Resources, interest on borrowings varies based on our total debt to EBITDA ratio and will depend on the timing of our repayments. As such, we are unable to quantify our future obligations relating to interest on our borrowings.

We lease our facilities and equipment under operating and capital lease arrangements expiring on various dates through 2018, with various renewal options. We lease office facilities under noncancelable operating leases that include fixed or minimum payments plus, in some cases, scheduled base rent increases over the term of the lease. Certain leases provide for monthly payments of real estate taxes, insurance and other operating expense applicable to the property. Some of the leases contain provisions whereby the future rental payments may be adjusted for increases in operating expense above the specified amount.

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **NEW ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued a new accounting pronouncement regarding fair value (formerly SFAS No. 157 Fair Value Measurements ). This pronouncement, located under FASB ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. This pronouncement does not require any new fair value measurements in financial statements, but standardizes its definition and guidance in GAAP. We adopted this pronouncement effective beginning on January 1, 2008 for financial assets and financial liabilities, which did not have any impact on our financial statements. In February 2008, the FASB delayed by one year the effective date of this pronouncement for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted this pronouncement effective beginning on January 1, 2009 for nonfinancial assets and nonfinancial liabilities, which did not have any impact on our financial statements.

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In December 2007, the FASB issued a new accounting pronouncement regarding business combinations (formerly SFAS No. 141 (revised 2007) Business Combinations ). This pronouncement, located under FASB ASC Topic 805, Business Combinations, was issued to improve the relevance, representational faithfulness, and comparability of information in financial statements about a business combination and its effects. This pronouncement retains the purchase method of accounting for business combinations, but requires a number of changes. The changes that may have the most significant impact on us include: contingent consideration, such as earn-outs, will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled; acquisition-related transaction and restructuring costs will be expensed as incurred; previously-issued financial information will be revised for



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subsequent adjustments made to finalize the purchase price accounting; reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings, except in certain situations. ASC Topic 805 also requires an acquirer to recognize at fair value, an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value can be determined on the date of acquisition. We adopted this pronouncement on a prospective basis effective beginning on January 1, 2009. For business combinations completed on or subsequent to the adoption date, the application of this pronouncement may have a significant impact on our financial statements, the magnitude of which will depend on the specific terms and conditions of the transactions. In 2009, our first year of adoption, the application of this pronouncement did not have a significant impact on our financial statements.

In December 2007, the FASB issued a new accounting pronouncement regarding noncontrolling interests and the deconsolidation of a subsidiary (formerly SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ). This pronouncement, located under FASB ASC Topic 810, Consolidation, was issued to improve the relevance, comparability, and transparency of financial information provided in financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. We adopted this pronouncement effective beginning on January 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements.

In March 2008, the FASB issued a new accounting pronouncement regarding derivative and hedging activities (formerly SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ). This pronouncement, located under FASB ASC Topic 815, Derivatives and Hedging, was issued to improve transparency of financial information provided in financial statements by requiring expanded disclosures about an entity's derivative and hedging activities. This pronouncement requires entities to provide expanded disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. We adopted this pronouncement effective beginning on January 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

In April 2009, the FASB issued a new accounting pronouncement regarding interim disclosures about fair value of financial instruments (formerly FSP FAS 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1 Interim Disclosures about Fair Value of Financial Instruments ). This pronouncement, located under FASB ASC Topic 825, Financial Instruments, increases the frequency of fair value disclosures by requiring both interim and annual disclosures. We adopted this pronouncement on a prospective basis effective beginning on April 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

In May 2009, the FASB issued a new accounting pronouncement regarding subsequent events (formerly SFAS No. 165 Subsequent Events ). This pronouncement, located under FASB ASC Topic 855, Subsequent Events, was issued to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This pronouncement requires entities to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. We adopted this pronouncement on a prospective basis effective beginning on April 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

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In June 2009, the FASB issued a new accounting pronouncement regarding authoritative GAAP (formerly SFAS No. 168 – The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles ). This pronouncement, located under FASB ASC Topic 105, Generally Accepted Accounting Principles, establishes the FASB Accounting Standards Codification ( Codification ) as the source of authoritative GAAP recognized by the FASB for nongovernmental entities. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All other nongrandfathered non-SEC accounting literature not included in the Codification is nonauthoritative. We adopted this pronouncement effective beginning on July 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). This pronouncement, located under FASB ASC Topic 105, Generally Accepted Accounting Principles, was issued to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This statement amends FASB Interpretation No. 46(R) to require an enterprise to perform an ongoing analysis to determine whether the enterprise has a controlling financial interest in a variable interest entity. This pronouncement will be effective for us beginning on January 1, 2010. We do not expect the application of this pronouncement to have a significant impact on our future financial position, results of operations, earnings per share, and cash flows.

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

### **Subsequent Event**

We have evaluated subsequent events since December 31, 2009 and up to the filing of this annual report on Form 10-K on February 23, 2010 and have concluded that no significant subsequent events have occurred that require disclosure.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

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

Our exposure to changes in interest rates is limited to borrowings under our bank credit facility, which has variable interest rates tied to the LIBOR, Federal Funds Rate or Prime Rate. At December 31, 2009, we had borrowings outstanding totaling \$219.0 million that carried a weighted-average interest rate of 4.0%. A hypothetical one percent change in this interest rate would have a \$2.2 million effect on our pre-tax income.

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On March 20, 2009, we entered into an interest rate swap agreement for a notional amount of \$100.0 million effective on March 31, 2009 and ending on February 23, 2012. We entered into this interest rate swap to hedge against the risk of changes in future cash flows related to changes in interest rate on \$100.0 million of the total variable-rate borrowings outstanding under our credit facility. Under the terms of the agreement, we receive from the counterparty interest on the \$100.0 million notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 1.715%. This swap effectively fixed our LIBOR-based rate for \$100.0 million of our debt beginning on March 31, 2009 and through February 23, 2012. Including the impact of the swap, the effective interest rate on \$100.0 million of our debt was 4.7% as of December 31, 2009. We assess the effectiveness of this hedge quarterly, and as of December 31, 2009, this hedge is effective.

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We have not entered into any other interest rate swaps, caps or collars or other hedging instruments as of December 31, 2009.

In connection with our acquisition of Stockamp and an amendment to the Wellspring Stock Purchase Agreement, we issued a total of 1,541,036 shares of our common stock to the sellers of Stockamp and Wellspring. Additionally, we provided them with a protection against a decline in the value of the shares issued until the restrictions on the shares lapsed. Of the 1,541,036 shares issued, the restrictions on 1,210,814 shares lapsed in January 2009 and we were not required to make further payments. The restrictions on the remaining 330,222 shares that were placed in escrow lapsed in July 2009 and we made a price protection payment of \$0.2 million to Stockamp.

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

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

The Company's consolidated financial statements and supplementary data begin on page F-1 of this annual report on Form 10-K.

### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

### **ITEM 9A. CONTROLS AND PROCEDURES.**

#### **Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this report, our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2009. Based on the evaluation, management has concluded that the disclosure controls and procedures were effective as of December 31, 2009.

**Changes in Internal Control over Financial Reporting**

As previously disclosed under Item 9A Controls and Procedures in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2008, management concluded that our internal control over financial reporting was not effective as of December 31, 2008 based on its identification of a material weakness related to our accounting for certain acquisition-related payments received by the selling shareholders of specific businesses we acquired that were subsequently redistributed by the selling shareholders among themselves and to other select Huron employees. Management worked throughout the year to remediate the material weakness that existed as of December 31, 2008. In the fourth quarter ending December 31, 2009, management had sufficient evidence to conclude that remediation was completed for the single material

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weakness previously reported. The significant changes in internal control over financial reporting that resulted in the remediation of the material weakness are as follows:

- Included new language in all purchase agreements entered into after December 31, 2008 to include specific stipulations regarding acquisition-related payments and allow for the Company to periodically audit and review the disbursement, if any, of acquisition-related payments by the sellers;
- Amended agreements amongst sellers related to certain acquisitions prior to 2009 to include stipulations that prohibit the distribution of acquisition-related payments other than in accordance with ownership percentages at the date of acquisition and the inclusion of a clause that allows for the Company to periodically audit and review the disbursement of acquisition-related payments by the sellers;
- Require certifications from selling shareholders at time of accrual and at time of cash payment of earn-out distributions that the payments have been appropriately distributed and ensuring that deviations, if any, are promptly reported to the Company. As of December 31, 2009, management has concluded that the control related to the certifications required at the time of cash payment of earn-out distributions is appropriately designed and capable of operating as intended;
- Amended the Company's Code of Business Conduct and Ethics in September 2009 to require employee disclosure of all compensation or other payments received, directly or indirectly, from any entity or individual associated with the Company or from any entity acquired by the Company;
- Amended the Charter of the Audit Committee to specify that the Audit Committee will review with management the proposed treatment for acquisition-related payments;
- Amended the Charter of the Disclosure Committee to require Committee members to review the purchase agreements and related certifications from selling shareholders to ensure the appropriate accounting for acquisition-related payments.

There were no other changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 and 15d-15 that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- (i) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

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- (ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
  
- (iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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In connection with the preparation of this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the internal control over financial reporting as of December 31, 2009 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in *Internal Control Integrated Framework*. As a result of that evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2009. The effectiveness of the Company's internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page F-2 of this annual report on Form 10-K.

**ITEM 9B. OTHER INFORMATION.**

None.



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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

**Directors, Executive Officers, Promoters and Control Persons**

The information required by this item is incorporated by reference from portions of our definitive proxy statement for our annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A by April 30, 2010 (the Proxy Statement ) under Nominees to Board of Directors, Directors Not Standing For Election and Executive Officers.

**Compliance with Section 16(a) of the Exchange Act**

The information required by this item is incorporated by reference from a portion of the Proxy Statement under Section 16(a) Beneficial Ownership Reporting Compliance.

**Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics (the Code ) that is applicable to all of our employees, officers and directors. The Code is available on our website at [www.huronconsultinggroup.com](http://www.huronconsultinggroup.com). If we make any amendments to or grant any waivers from the Code which are required to be disclosed pursuant to the Securities Exchange Act of 1934, we will make such disclosures on our website.

**Corporate Governance**

The information required by this item is incorporated by reference from a portion of the Proxy Statement under Board Meetings and Committees.

**ITEM 11. EXECUTIVE COMPENSATION.**

**Executive Compensation**

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The information required by this item is incorporated by reference from a portion of the Proxy Statement under Executive Compensation.

### **Compensation Committee Interlocks and Insider Participation**

The information required by this item is incorporated by reference from a portion of the Proxy Statement under Compensation Committee Interlocks and Insider Participation.

### **Compensation Committee Report**

The information required by this item is incorporated by reference from a portion of the Proxy Statement under Compensation Committee Report.

**Table of Contents****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.****Securities Authorized for Issuance Under Equity Compensation Plans**

The following table summarizes information as of December 31, 2009 with respect to equity compensation plans approved by shareholders. We do not have equity compensation plans that have not been approved by shareholders.

| <b>Plan Category</b>                                    | <b>Number of Shares to be Issued Upon Exercise of Outstanding Options</b> | <b>Weighted-Average Exercise Price of Outstanding Options</b> | <b>Number of Shares Remaining Available for Future Issuance (excluding shares in 1<sup>st</sup> column)</b> |
|---|---|---|---|
| Equity compensation plans approved by shareholders (1): |   |   |   |
| 2002 Equity Incentive Plan                              | 58,948  | \$ 0.02   | (2)   |
| 2002 Equity Incentive Plan (California)                 | 2,176   | \$ 1.35   | (2)   |
| 2003 Equity Incentive Plan                              | 87,129  | \$ 1.25   | (2)   |
| 2004 Omnibus Stock Plan                                 | 51,978  | \$ 15.50  | 870,073   |
| Equity compensation plans not approved by shareholders: | N/A   | N/A   | N/A   |
| <b>Total</b>  | <b>200,231</b>  | <b>\$ 4.59</b>  | <b>870,073</b>  |

- (1) Our equity compensation plans were approved by the existing shareholders prior to our initial public offering. At our annual meeting of stockholders on May 2, 2006 our stockholders approved an amendment to our 2004 Omnibus Stock Plan to increase the number of shares available for issuance by 2,100,000 shares.
- (2) Prior to the completion of our initial public offering, we established the 2004 Omnibus Stock Plan. We terminated the 2002 Equity Incentive Plan, 2002 Equity Incentive Plan (California) and 2003 Equity Incentive Plan with respect to future awards and no further awards will be granted under these plans.

**Security Ownership of Certain Beneficial Owners and Management**

The other information required by this item is incorporated by reference from a portion of the Proxy Statement under Stock Ownership of Certain Beneficial Owners and Management.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.****Certain Relationships and Related Transactions**

The information required by this item is incorporated by reference from a portion of the Proxy Statement under Certain Relationships and Related Transactions.

**Director Independence**

The information required by this item is incorporated by reference from portions of the Proxy Statement under Nominees to Board of Directors, Directors Not Standing For Election, and Board Meetings and Committees.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this item is incorporated by reference from a portion of the Proxy Statement under Audit and Non-Audit Fees.

**Table of Contents****PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.****(a) Documents filed as part of this annual report on Form 10-K.**

- 1. Financial Statements** Our independent registered public accounting firm's report and our consolidated financial statements are listed below and begin on page F-1 of this Amendment.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Stockholders' Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

- 2. Financial Statement Schedules** The financial statement schedules required by this item are included in the consolidated financial statements and accompanying notes.

**3. Exhibit Index**

| Exhibit<br>Number | Exhibit Description   | Filed<br>herewith | Incorporated by Reference |                  | Filing<br>Date |
|-------------------|---|-------------------|---------------------------|------------------|----------------|
|                   |   |                   | Form                      | Ending<br>Period |                |
| 2.1               | Asset Purchase Agreement by and between MSGalt & Company, LLC, Huron Consulting Services LLC, M. Scott Gillis, Joseph R. Shalleck and Leroy J. Mergy, dated as of March 31, 2006.     |                   | 8-K                       | Ending<br>2.1    | 4/6/06         |
| 2.2               | Membership Interest Purchase and Sale Agreement by and among Huron Consulting Group Holdings LLC, Document Review Consulting Services LLC and Robert Rowe, dated as of July 31, 2006. |                   | 8-K                       | Ending<br>2.1    | 8/3/06         |
| 2.3               | Stock Purchase Agreement by and among Wellspring Partners LTD, the Shareholders of Wellspring Partners LTD and Huron Consulting Group Holdings LLC, dated as of December 29, 2006.    |                   | 8-K                       | Ending<br>2.1    | 1/8/07         |

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|     |   |     |     |        |
|-----|---|-----|-----|--------|
| 2.4 | Amendment No. 1, dated July 8, 2008, to the Stock Purchase Agreement, dated as of December 29, 2006, by and among Wellspring Partners LTD, the shareholders of Wellspring Partners LTD listed on the signature page thereto, and Huron Consulting Group Holdings LLC. | 8-K | 2.2 | 7/9/08 |
| 2.5 | Stock Purchase Agreement by and among Glass & Associates, Inc., the Shareholders of Glass & Associates, Inc. and Huron Consulting Group Holdings LLC and Huron Consulting Group Inc., dated as of January 2, 2007.  | 8-K | 2.2 | 1/8/07 |
| 2.6 | Joinder Agreement by and between John DiDonato and Huron Consulting Group Holdings LLC.   | 8-K | 2.3 | 1/8/07 |

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| <b>Exhibit<br/>Number</b> | <b>Exhibit Description</b>   | <b>Filed<br/>herewith</b> | <b>Incorporated by Reference</b> |                          |                | <b>Filing<br/>Date</b> |
|---------------------------|--|---------------------------|----------------------------------|--------------------------|----------------|------------------------|
|                           |  |                           | <b>Form</b>                      | <b>Ending<br/>Period</b> | <b>Exhibit</b> |                        |
| 2.7                       | Joinder Agreement by and between Anthony Wolf and Huron Consulting Group Holdings LLC.   |                           | 8-K                              |                          | 2.4            | 1/8/07                 |
| 2.8                       | Joinder Agreement by and between Shaun Martin and Huron Consulting Group Holdings LLC.   |                           | 8-K                              |                          | 2.5            | 1/8/07                 |
| 2.9                       | Joinder Agreement by and between Sanford Edlein and Huron Consulting Group Holdings LLC.   |                           | 8-K                              |                          | 2.6            | 1/8/07                 |
| 2.10                      | Joinder Agreement by and between Dalton Edgecomb and Huron Consulting Group Holdings LLC.  |                           | 8-K                              |                          | 2.7            | 1/8/07                 |
| 2.11                      | Asset Purchase Agreement, dated July 8, 2008, by and among, Huron Consulting Group Inc., Huron Consulting Group Services LLC, Stockamp & Associates, Inc. and the shareholders of Stockamp & Associates, Inc. listed on the signature pages thereto.   |                           | 8-K                              |                          | 2.1            | 7/9/08                 |
| 2.12                      | Letter agreement, dated July 29, 2009 by and among Huron Consulting Services LLC, Rand Consulting LLC, M. Scott Gillis, Joseph R. Shalleck and Leroy J. Mergy amending the Asset Purchase Agreement, dated March 31, 2006, by and among Huron Consulting Services LLC, MSGalt & Company LLC (now known as Rand Consulting LLC) and M. Scott Gillis, Joseph R. Shalleck and Leroy J. Mergy.   |                           | 10-Q                             | 9/30/09                  | 2.1            | 11/5/09                |
| 2.13                      | Letter agreement, dated July 30, 2009 by and among Huron Consulting Services LLC, David Shade, John F. Tiscornia and George Whetsell as trustees and David Shade, John F. Tiscornia, George Whetsell, Janice James, Ramona Lacy and Gordon Mountford as beneficiaries, amending the Stock Purchase Agreement, dated December 29, 2006, by and among Huron Consulting Services LLC, Wellspring Partners LTD and the former shareholders of Wellspring Partners LTD. |                           | 10-Q                             | 9/30/09                  | 2.2            | 11/5/09                |
| 3.1                       | Third Amended and Restated Certificate of Incorporation of Huron Consulting Group Inc.   |                           | 10-K                             | 12/31/04                 | 3.1            | 2/16/05                |
| 3.2                       | Amended and Restated Bylaws of Huron Consulting Group Inc.   |                           | 10-Q                             | 6/30/09                  | 3.1            | 8/7/09                 |
| 4.1                       | Specimen Stock Certificate.  |                           | S-1                              |                          | 4.1            | 10/5/04                |

(File No.  
333-115434)

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| Exhibit<br>Number | Exhibit Description  | Filed<br>herewith | Incorporated by Reference<br>Period |                   | Filing<br>Date |
|-------------------|--|-------------------|-------------------------------------|-------------------|----------------|
|                   |  |                   | Form                                | Ending<br>Exhibit |                |
| 10.1              | Office Lease, dated December 2003, between Union Tower, LLC and Huron Consulting Services LLC (formerly known as Huron Consulting Group LLC).  |                   | S-1<br><br>(File No.<br>333-115434) | 10.1              | 10/5/04        |
| 10.2              | Restricted Shares Award Agreement, dated December 10, 2002, between Huron Consulting Group Inc., Huron Consulting Services LLC (formerly known as Huron Consulting Group LLC), HCG Holdings LLC and Gary E. Holdren. |                   | S-1<br><br>(File No.<br>333-115434) | 10.5              | 10/5/04        |
| 10.3              | Restricted Shares Award Agreement, dated December 31, 2002, between Huron Consulting Group Inc. and Gary E. Holdren.   |                   | S-1<br><br>(File No.<br>333-115434) | 10.6              | 10/5/04        |
| 10.4              | Huron Consulting Group Inc. 2002 Equity Incentive Plan and form of option agreement thereunder.  |                   | S-1<br><br>(File No.<br>333-115434) | 10.13             | 10/5/04        |
| 10.5              | Amendment No. 1 to Huron Consulting Group Inc. 2002 Equity Incentive Plan.   |                   | S-1<br><br>(File No.<br>333-115434) | 10.14             | 10/5/04        |
| 10.6              | Amended and Restated Huron Consulting Group Inc. 2002 Equity Incentive Plan (California) and form of option agreement thereunder.  |                   | S-1<br><br>(File No.<br>333-115434) | 10.15             | 10/5/04        |
| 10.7              | Huron Consulting Group Inc. 2003 Equity Incentive Plan and form of option agreement thereunder.  |                   | S-1<br><br>(File No.<br>333-115434) | 10.16             | 10/5/04        |
| 10.8              | Huron Consulting Group Inc. 2004 Omnibus Stock Plan and form of option and restricted stock agreement thereunder.  |                   | S-1<br><br>(File No.<br>333-115434) | 10.17             | 10/5/04        |
| 10.9              | Amendment No. 1 to the Huron Consulting Group Inc. 2004 Omnibus Stock Plan.  |                   | S-8<br><br>(File No.<br>333-137107) | 10.1              | 9/5/06         |
| 10.10             | Sixth Amendment to Credit Agreement, dated as of July 8, 2008, by and among Huron Consulting Group Inc., the guarantors and lenders listed on the signature pages thereto, and Bank of America, N.A.                 |                   | 10-Q                                | 10.1              | 8/5/08         |
| 10.11             | Seventh Amendment to Credit Agreement, dated as of September 30, 2008, by and among Huron Consulting Group Inc., the guarantors and lenders listed on the signature pages thereto, and Bank of America, N.A.         |                   | 10-Q                                | 10.1              | 10/30/08       |



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|       |  |      |          |       |         |
|-------|--|------|----------|-------|---------|
| 10.12 | Huron Consulting Group Inc. Deferred Compensation Plan as Amended and Restated effective January 1, 2009.        | 10-K | 12/31/08 | 10.12 | 2/24/09 |
| 10.13 | Amended and Restated Senior Management Agreement By and Between Huron Consulting Group Inc. and Gary E. Holdren. | 10-K | 12/31/08 | 10.13 | 2/24/09 |

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| Exhibit<br>Number | Exhibit Description   | Filed<br>herewith | Incorporated by Reference<br>Period |          | Filing<br>Date |         |
|-------------------|---|-------------------|-------------------------------------|----------|----------------|---------|
|                   |   |                   | Form                                | Ending   | Exhibit        | Date    |
| 10.14             | Amended and Restated Senior Management Agreement By and Between Huron Consulting Group Inc. and Daniel P. Broadhurst.   |                   | 10-K                                | 12/31/08 | 10.14          | 2/24/09 |
| 10.15             | Amended and Restated Senior Management Agreement By and Between Huron Consulting Group Inc. and Gary L. Burge.  |                   | 10-K                                | 12/31/08 | 10.15          | 2/24/09 |
| 10.16             | Amended and Restated Senior Management Agreement By and Between Huron Consulting Group Inc. and Mary M. Sawall.   |                   | 10-K                                | 12/31/08 | 10.16          | 2/24/09 |
| 10.17             | Senior Management Agreement By and Between Huron Consulting Group Inc. and Natalia Delgado.   |                   | 10-K                                | 12/31/08 | 10.17          | 2/24/09 |
| 10.18             | Eighth Amendment to the Credit Agreement, dated as of September 30, 2009, by and among Huron Consulting Group Inc., the guarantors and lenders listed on the signature pages thereto, and Bank of America, N.A. |                   | 8-K                                 |          | 10.1           | 10/6/09 |
| 10.19             | Security Agreement, dated as of September 30, 2009, by and among the grantors listed on the signature pages thereto, and Bank of America, N.A.  |                   | 8-K                                 |          | 10.2           | 10/6/09 |
| 10.20             | Amended and Restated Senior Management Agreement by and between Huron Consulting Group Inc. and James H. Roth   |                   | 8-K                                 |          | 10.1           | 1/14/10 |
| 10.21             | Form of Second Amendment to the Huron Consulting Group Inc. 2004 Omnibus Stock Plan.  | X                 |                                     |          |                |         |
| 10.22             | Senior Management Agreement By and Between Huron Consulting Group Inc. and James K. Rojas.  | X                 |                                     |          |                |         |
| 21.1              | List of Subsidiaries of Huron Consulting Group Inc.   | X                 |                                     |          |                |         |
| 23.1              | Consent of PricewaterhouseCoopers LLP.  | X                 |                                     |          |                |         |
| 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 adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   | X                 |                                     |          |                |         |
| 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                 |                                     |          |                |         |

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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)

| Signature                                     | Title                   | Date              |
|---|-------------------------|-------------------|
| /s/ JAMES H. ROTH<br><br><b>James H. Roth</b> | Chief Executive Officer | February 23, 2010 |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature   | Title  | Date              |
|---|--|-------------------|
| /s/ JAMES H. ROTH<br><br><b>James H. Roth</b>           | Chief Executive Officer and Director<br><br>(Principal Executive Officer)                                | February 23, 2010 |
| /s/ GEORGE E. MASSARO<br><br><b>George E. Massaro</b>   | Non-Executive Chairman of the Board  | February 23, 2010 |
| /s/ JAMES K. ROJAS<br><br><b>James K. Rojas</b>         | Vice President, Chief Financial Officer and<br>Treasurer (Principal Financial and Accounting<br>Officer) | February 23, 2010 |
| /s/ DuBOSE AUSLEY<br><br><b>DuBose Ausley</b>           | Director   | February 23, 2010 |
| /s/ JAMES D. EDWARDS<br><br><b>James D. Edwards</b>     | Director   | February 23, 2010 |
| /s/ H. EUGENE LOCKHART<br><br><b>H. Eugene Lockhart</b> | Director   | February 23, 2010 |
| /s/ JOHN F. McCARTNEY<br><br><b>John F. McCartney</b>   | Director   | February 23, 2010 |

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/s/ JOHN S. MOODY

Director

February 23, 2010

**John S. Moody**

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**HURON CONSULTING GROUP INC.**

CONSOLIDATED FINANCIAL STATEMENTS

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Huron Consulting Group Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Huron Consulting Group, Inc. and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Chicago, IL

February 23, 2010



**Table of Contents****HURON CONSULTING GROUP INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts)**

|  | December 31, |            |
|--|--------------|------------|
|  | 2009         | 2008       |
| <b>Assets</b>                                      |              |            |
| Current assets:                                    |              |            |
| Cash and cash equivalents                          | \$ 5,715     | \$ 12,404  |
| Receivables from clients, net                      | 90,543       | 85,327     |
| Unbilled services, net                             | 37,558       | 37,180     |
| Income tax receivable                              | 18,911       | 3,496      |
| Deferred income taxes                              | 16,338       | 15,695     |
| Prepaid expenses and other current assets          | 19,437       | 14,122     |
| Current assets of discontinued operations          | 4,281        | 10,831     |
| Total current assets                               | 192,783      | 179,055    |
| Property and equipment, net                        | 39,147       | 43,516     |
| Deferred income taxes                              | 21,298       | 2,064      |
| Other non-current assets                           | 14,383       | 14,587     |
| Intangible assets, net                             | 22,406       | 31,832     |
| Goodwill   | 464,169      | 505,676    |
| Non-current assets of discontinued operations      | 29           | 2,867      |
| Total assets                                       | \$ 754,215   | \$ 779,597 |
| <b>Liabilities and stockholders equity</b>         |              |            |
| Current liabilities:                               |              |            |
| Accounts payable                                   | \$ 7,150     | \$ 6,401   |
| Accrued expenses                                   | 29,201       | 26,525     |
| Accrued payroll and related benefits               | 71,473       | 42,666     |
| Accrued consideration for business acquisitions    | 63,188       | 60,099     |
| Income tax payable                                 | 874          | 1,712      |
| Deferred revenues                                  | 13,764       | 21,192     |
| Current portion of capital lease obligations       | 278          | 518        |
| Current liabilities of discontinued operations     | 7,065        | 7,038      |
| Total current liabilities                          | 192,993      | 166,151    |
| Non-current liabilities:                           |              |            |
| Deferred compensation and other liabilities        | 6,131        | 5,309      |
| Capital lease obligations, net of current portion  | 5            | 204        |
| Bank borrowings                                    | 219,000      | 280,000    |
| Deferred lease incentives                          | 8,681        | 8,677      |
| Non-current liabilities of discontinued operations | 416          | 230        |
| Total non-current liabilities                      | 234,233      | 294,420    |
| Commitments and contingencies                      |              |            |
| <b>Stockholders equity</b>                         |              |            |



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|  |                   |                   |
|--|-------------------|-------------------|
| Common stock; \$0.01 par value; 500,000,000 shares authorized; 22,624,515 and 21,387,679 shares issued at December 31, 2009 and 2008, respectively | 213               | 202               |
| Treasury stock, at cost, 995,409 and 404,357 shares at December 31, 2009 and 2008, respectively  | (51,561)          | (21,443)          |
| Additional paid-in capital   | 335,272           | 263,485           |
| Retained earnings  | 43,858            | 76,731            |
| Accumulated other comprehensive (loss) income  | (793)             | 51                |
| <b>Total stockholders' equity</b>  | <b>326,989</b>    | <b>319,026</b>    |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 754,215</b> | <b>\$ 779,597</b> |

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

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**Table of Contents****HURON CONSULTING GROUP INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

|   | Year ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2009                    | 2008       | 2007       |
| <b>Revenues and reimbursable expenses:</b>  |                         |            |            |
| Revenues  | \$ 628,700              | \$ 573,775 | \$ 475,770 |
| Reimbursable expenses   | 50,840                  | 52,303     | 39,382     |
| Total revenues and reimbursable expenses  | 679,540                 | 626,078    | 515,152    |
| <b>Direct costs and reimbursable expenses</b> (exclusive of depreciation and amortization shown in operating expenses): |                         |            |            |
| Direct costs  | 395,869                 | 365,932    | 293,426    |
| Intangible assets amortization  | 4,695                   | 6,629      | 7,993      |
| Reimbursable expenses   | 50,848                  | 52,319     | 39,170     |
| Total direct costs and reimbursable expenses  | 451,412                 | 424,880    | 340,589    |
| <b>Operating expenses:</b>  |                         |            |            |
| Selling, general and administrative   | 125,655                 | 126,094    | 99,398     |
| Restructuring charges   | 3,131                   | 2,343      |            |
| Restatement related expenses  | 17,490                  |            |            |
| Depreciation and amortization   | 22,192                  | 22,922     | 17,191     |
| Impairment charge on goodwill   | 67,034                  |            |            |
| Total operating expenses  | 235,502                 | 151,359    | 116,589    |
| Other gains   | (4,787)                 |            |            |
| Operating (loss) income   | (2,587)                 | 49,839     | 57,974     |
| <b>Other (expense) income:</b>  |                         |            |            |
| Interest expense, net of interest income  | (12,256)                | (13,775)   | (8,263)    |
| Other income (expense)  | 1,883                   | (2,788)    | 19         |
| Total other expense   | (10,373)                | (16,563)   | (8,244)    |
| (Loss) income from continuing operations before income tax expense  | (12,960)                | 33,276     | 49,730     |
| Income tax expense  | 1,529                   | 27,750     | 28,439     |
| Net (loss) income from continuing operations  | (14,489)                | 5,526      | 21,291     |
| (Loss) income from discontinued operations (including loss on disposal of \$0.4 million in 2009), net of tax            | (18,384)                | 4,555      | 2,989      |
| Net (loss) income   | \$ (32,873)             | \$ 10,081  | \$ 24,280  |
| Net (loss) earnings per basic share:  |                         |            |            |
| (Loss) income from continuing operations  | \$ (0.72)               | \$ 0.30    | \$ 1.26    |

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|  |    |        |    |        |    |        |
|--|----|--------|----|--------|----|--------|
| (Loss) income from discontinued operations                             | \$ | (0.91) | \$ | 0.25   | \$ | 0.17   |
| Net (loss) income  | \$ | (1.63) | \$ | 0.55   | \$ | 1.43   |
| Net (loss) earnings per diluted share:                                 |    |        |    |        |    |        |
| (Loss) income from continuing operations                               | \$ | (0.72) | \$ | 0.29   | \$ | 1.18   |
| (Loss) income from discontinued operations                             | \$ | (0.91) | \$ | 0.24   | \$ | 0.17   |
| Net (loss) income  | \$ | (1.63) | \$ | 0.53   | \$ | 1.35   |
| Weighted average shares used in calculating (loss) earnings per share: |    |        |    |        |    |        |
| Basic  |    | 20,114 |    | 18,257 |    | 16,944 |
| Diluted  |    | 20,114 |    | 19,082 |    | 18,033 |

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

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Table of Contents**HURON CONSULTING GROUP INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(In thousands, except share amounts)

|  | Common Stock |        | Treasury<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Stockholders<br>Equity |
|--|--------------|--------|-------------------|----------------------------------|----------------------|---|------------------------|
|  | Shares       | Amount |                   |                                  |                      |   |                        |
| <b>Balance at December 31, 2006</b>                                | 17,828,323   | \$ 178 | \$ (9,396)        | \$ 83,428                        | \$ 42,370            | \$  | \$ 116,580             |
| Comprehensive Income:  |              |        |                   |                                  |                      |   |                        |
| Net income   |              |        |                   |                                  | 24,280               |   | 24,280                 |
| Foreign currency translation adjustment, net of tax                |              |        |                   |                                  |                      | 56  | 56                     |
| <b>Total comprehensive income</b>                                  |              |        |                   |                                  |                      |   | <b>24,336</b>          |
| Issuance of common stock in connection with:                       |              |        |                   |                                  |                      |   |                        |
| Restricted stock awards, net of cancellations                      | 189,790      | 2      | (1,223)           | 1,221                            |                      |   |                        |
| Exercise of stock options  | 225,960      | 2      |                   | 560                              |                      |   | 562                    |
| Share-based compensation   |              |        |                   | 19,812                           |                      |   | 19,812                 |
| Shares redeemed for employee tax withholdings                      |              |        | (10,084)          |                                  |                      |   | (10,084)               |
| Income tax benefit on share-based compensation                     |              |        |                   | 14,957                           |                      |   | 14,957                 |
| Capital contributed by selling shareholders of acquired businesses |              |        |                   | 17,621                           |                      |   | 17,621                 |
| <b>Balance at December 31, 2007</b>                                | 18,244,073   | \$ 182 | \$ (20,703)       | \$ 137,599                       | \$ 66,650            | \$ 56   | \$ 183,784             |
| Comprehensive Income:  |              |        |                   |                                  |                      |   |                        |
| Net income   |              |        |                   |                                  | 10,081               |   | 10,081                 |
| Foreign currency translation adjustment, net of tax                |              |        |                   |                                  |                      | (5)   | (5)                    |
| <b>Total comprehensive income</b>                                  |              |        |                   |                                  |                      |   | <b>10,076</b>          |
| Issuance of common stock in connection with:                       |              |        |                   |                                  |                      |   |                        |
| Restricted stock awards, net of cancellations                      | 362,669      | 4      | 5,422             | (5,426)                          |                      |   |                        |
| Exercise of stock options  | 256,253      | 3      |                   | 394                              |                      |   | 397                    |
| Business combinations  | 1,320,913    | 13     |                   | 61,307                           |                      |   | 61,320                 |
| Share-based compensation   |              |        |                   | 26,807                           |                      |   | 26,807                 |
| Shares redeemed for employee tax withholdings                      |              |        | (6,162)           |                                  |                      |   | (6,162)                |
| Income tax benefit on share-based compensation                     |              |        |                   | 12,234                           |                      |   | 12,234                 |
| Capital contributed by selling shareholders of acquired businesses |              |        |                   | 30,570                           |                      |   | 30,570                 |
| <b>Balance at December 31, 2008</b>                                | 20,183,908   | \$ 202 | \$ (21,443)       | \$ 263,485                       | \$ 76,731            | \$ 51   | \$ 319,026             |
| Comprehensive Loss:  |              |        |                   |                                  |                      |   |                        |
| Net loss   |              |        |                   |                                  | (32,873)             |   | (32,873)               |
| Foreign currency translation adjustment, net of tax                |              |        |                   |                                  |                      | (450)   | (450)                  |
| Unrealized loss on cash flow hedging instrument, net of tax        |              |        |                   |                                  |                      | (394)   | (394)                  |
| <b>Total comprehensive loss</b>                                    |              |        |                   |                                  |                      |   | <b>(33,717)</b>        |
| Issuance of common stock in connection with:                       |              |        |                   |                                  |                      |   |                        |
| Restricted stock awards, net of cancellations                      | 720,190      | 7      | (26,814)          | 26,807                           |                      |   |                        |
| Exercise of stock options  | 95,991       | 1      |                   | 161                              |                      |   | 162                    |
| Business combinations  | 330,222      | 3      |                   | 14,760                           |                      |   | 14,763                 |
| Share-based compensation   |              |        |                   | 19,904                           |                      |   | 19,904                 |
| Shares redeemed for employee tax withholdings                      |              |        | (3,304)           |                                  |                      |   | (3,304)                |

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|  |            |    |     |             |            |    |        |    |       |    |         |
|--|------------|----|-----|-------------|------------|----|--------|----|-------|----|---------|
| Income tax benefit on share-based compensation                     |            |    |     |             | 1,822      |    |        |    | 1,822 |    |         |
| Capital contributed by selling shareholders of acquired businesses |            |    |     |             | 8,333      |    |        |    | 8,333 |    |         |
| <b>Balance at December 31, 2009</b>                                | 21,330,311 | \$ | 213 | \$ (51,561) | \$ 335,272 | \$ | 43,858 | \$ | (793) | \$ | 326,989 |

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

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

|   | Year ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2009                    | 2008      | 2007      |
| <b>Cash flows from operating activities:</b>                                      |                         |           |           |
| Net (loss) income   | \$ (32,873)             | \$ 10,081 | \$ 24,280 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |           |           |
| Depreciation and amortization   | 28,333                  | 29,920    | 25,200    |
| Share-based compensation  | 19,904                  | 26,807    | 19,812    |
| Non-cash compensation   | 8,333                   | 30,570    | 17,621    |
| Allowances for doubtful accounts and unbilled services                            | 1,993                   | 5,477     | 7,306     |
| Deferred income taxes   | (21,762)                | 520       | 1,384     |
| Impairment charge on goodwill   | 106,000                 |           |           |
| Impairment of goodwill and intangibles related to discontinued operations         | 3,425                   |           |           |
| Non-cash gains and other  | (3,286)                 |           | 15        |
| Changes in operating assets and liabilities, net of businesses acquired:          |                         |           |           |
| (Increase) decrease in receivables from clients                                   | (2,597)                 | 6,386     | (30,957)  |
| Decrease (increase) in unbilled services  | 2,503                   | (12,380)  | (8,016)   |
| (Increase) decrease in current income tax receivable / payable, net               | (15,957)                | 11,066    | (8,512)   |
| (Increase) in other assets  | (622)                   | (8,620)   | (7,377)   |
| Increase in accounts payable and accrued liabilities                              | 6,928                   | 5,494     | 4,271     |
| Increase (decrease) in accrued payroll and related benefits                       | 28,335                  | (13,051)  | 13,964    |
| (Decrease) increase in deferred revenues  | (8,601)                 | 8,930     | (3,062)   |
| Net cash provided by operating activities   | 120,056                 | 101,200   | 55,929    |
| <b>Cash flows from investing activities:</b>                                      |                         |           |           |
| Purchases of property and equipment, net  | (12,616)                | (19,821)  | (18,909)  |
| Net investment in life insurance policies   | (395)                   | (1,093)   | (2,245)   |
| Purchases of businesses, net of cash acquired                                     | (51,550)                | (229,947) | (168,209) |
| Net cash used in investing activities   | (64,561)                | (250,861) | (189,363) |
| <b>Cash flows from financing activities:</b>                                      |                         |           |           |
| Proceeds from exercise of stock options   | 162                     | 397       | 562       |
| Shares redeemed for employee tax withholdings                                     | (3,304)                 | (6,162)   | (10,084)  |
| Tax benefit from share-based compensation   | 1,822                   | 12,234    | 14,957    |
| Proceeds from borrowings under credit facility                                    | 246,000                 | 631,500   | 340,500   |
| Repayments on credit facility   | (307,000)               | (475,000) | (225,000) |
| Principal payments of notes payable and capital lease obligations                 | (370)                   | (1,432)   | (1,136)   |
| Net cash (used in) provided by financing activities                               | (62,690)                | 161,537   | 119,799   |
| Effect of exchange rate changes on cash   | (452)                   | (763)     | 56        |
| Net (decrease) increase in cash and cash equivalents                              | (7,647)                 | 11,113    | (13,579)  |

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|  |          |           |          |
|--|----------|-----------|----------|
| Cash and cash equivalents at beginning of the period | 14,106   | 2,993     | 16,572   |
| Cash and cash equivalents at end of the period (1)   | \$ 6,459 | \$ 14,106 | \$ 2,993 |

**Supplemental disclosure of cash flow information:**

Non-cash investing and financing activities:

|  |           |           |           |
|--|-----------|-----------|-----------|
| Issuance of common stock in connection with business combinations                            | \$        | \$ 61,320 | \$        |
| Issuance of common stock in connection with a business combination classified as a liability | \$        | \$ 15,000 | \$        |
| Capitalized lease obligations incurred   | \$ 18     | \$ 611    | \$ 398    |
| Cash paid during the year for:   |           |           |           |
| Interest   | \$ 11,968 | \$ 17,065 | \$ 7,138  |
| Income taxes   | \$ 22,800 | \$ 9,254  | \$ 25,475 |

(1) Cash and cash equivalents presented herein includes \$744, \$1,702 and \$792 of cash and cash equivalents classified as discontinued operations as of December 31, 2009, 2008 and 2007, respectively.

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

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**1. Description of Business**

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

**2. Summary of Significant Accounting Policies**

**Basis of Presentation and Principles of Consolidation**

The accompanying consolidated financial statements reflect the results of operations and cash flows for the years ended December 31, 2009, 2008 and 2007. The results of operations and cash flows for the years ended December 31, 2008 and 2007 have been restated as described in note 3, Restatement of Previously-Issued Financial Statements. Certain amounts reported in the previous years have been reclassified to conform to the 2009 presentation. The consolidated financial statements include the accounts of Huron Consulting Group Inc. and its 100% owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

In December 2009, our Board of Directors approved a plan to divest two businesses within the Accounting and Financial Consulting and Corporate Consulting operating segments. As part of the strategy to focus on our core businesses, we have committed to a plan to sell the portion of the international operations that include the office and respective operations in Japan ( Japan ), which is a component of both the Accounting and Financial Consulting and Corporate Consulting segments. Additionally, on December 31, 2009 we completed the sale of the April 2006 acquisition of MS Galt & Company LLC ( Galt ), a strategy business within the Corporate Consulting segment, back to its three principals. As a result of these actions, the operating results of Japan and Galt are reported as discontinued operations for 2009. All other operations of the business are considered continuing operations. Amounts previously reported have been reclassified to conform with this presentation in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 205 Presentation of Financial Statements to allow for meaningful comparison. See note 4, Discontinued Operations for additional information.

**Use of Estimates**



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The preparation of financial statements in conformity with accounting principles generally accepted in the United States ( GAAP ) requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Actual results may differ from these estimates and assumptions.

### **Revenue Recognition**

We recognize revenues in accordance with FASB ASC Topic 605 Revenue Recognition. Under FASB ASC Topic 605, revenue is recognized when persuasive evidence of an arrangement exists, the related services are provided, the price is fixed and determinable and collectability is reasonably assured. We generate the majority of our revenues from providing professional services under three types of billing arrangements: time-and-expense, fixed-fee, and performance-based.

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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.

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 recognize revenues under fixed-fee billing arrangements using a percentage-of-completion approach, which is based on our estimates of work completed to-date versus the total services to be provided under the engagement. Estimates of total engagement revenues and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and reasonably estimable.

In performance-based 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 cost effectiveness in the procurement area. Second, we have performance-based engagements in which we earn a success fee when and if certain pre-defined outcomes occur. Often this type of performance-based fee supplements time-and-expense or fixed-fee engagements. We do not recognize revenues under performance-based billing arrangements until all related performance criteria are met and agreed to by the client.

We also generate revenues from licensing our proprietary software to clients and from providing related training and support during the term of the consulting engagement. Licenses for our software are sold only as a component of our consulting projects and as such, there is no vendor specific objective evidence of fair value. Therefore, revenues from software licenses are recognized ratably over the term of the related consulting services contract. Thereafter, clients pay an annual fee for software support and maintenance. Annual 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.

We have arrangements with clients in which we provide multiple elements of services under one engagement contract. Revenues under these types of arrangements are allocated to each element based on the element's fair value in accordance with FASB ASC Topic 605 and recognized pursuant to the criteria described above.

Provisions are recorded for the estimated realization adjustments on all engagements, including engagements for which fees are subject to review by the bankruptcy courts. Expense reimbursements that are billable to clients are included in total revenues and reimbursable expenses, and typically an equivalent amount of reimbursable expenses are included in total direct costs and reimbursable expenses. Reimbursable expenses are primarily recognized as revenue in the period in which the expense is incurred. Subcontractors that are billed to clients at cost are also included in reimbursable expenses.

Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or deferred revenues in the accompanying consolidated balance sheets. Revenues recognized for services performed but not yet billed to clients are recorded as unbilled services. Client prepayments and

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

retainers are classified as deferred (i.e., unearned) revenues and recognized over future periods as earned in accordance with the applicable engagement agreement.

**Allowances for Doubtful Accounts and Unbilled Services**

We maintain allowances for doubtful accounts and for services performed but not yet billed for estimated losses based on several factors, including the estimated cash realization from amounts due from clients, an assessment of a client's ability to make required payments, and the historical percentages of fee adjustments and write-offs by practice group. The allowances are assessed by management on a regular basis.

We record the provision for doubtful accounts and unbilled services as a reduction in revenue to the extent the provision relates to fee adjustments and other discretionary pricing adjustments. To the extent the provision relates to a client's inability to make required payments on accounts receivables, we record the provision in selling, general and administrative expenses.

**Direct Costs and Reimbursable Expenses**

Direct costs and reimbursable expenses consist primarily of revenue-generating employee compensation and their related benefit and share-based compensation costs, the cost of outside consultants or subcontractors assigned to revenue-generating activities and direct expenses to be reimbursed by clients. Direct costs and reimbursable expenses incurred on engagements are expensed in the period incurred.

**Cash and Cash Equivalents**

We consider all highly liquid investments, including overnight investments and commercial paper, with original maturities of three months or less to be cash equivalents.

**Concentrations of Credit Risk**

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To the extent receivables from clients become delinquent, collection activities commence. No single client balance is considered large enough to pose a material credit risk. The allowances for doubtful accounts and unbilled services are based upon the expected ability to collect accounts receivable, and bill and collect unbilled services. Management does not anticipate incurring losses on accounts receivable in excess of established allowances. See note 20. Segment Information for concentration of accounts receivable and unbilled services.

### **Fair Value of Financial Instruments**

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.

### **Property and Equipment**

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets. Software,

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

computers and related equipment are depreciated over an estimated useful life of 2 to 4 years. Furniture and fixtures are depreciated over 5 years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the initial term of the lease.

**Impairment of Long-Lived Assets**

Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable in accordance with FASB ASC Topic 360 Property, Plant and Equipment. No impairment charges for long-lived assets were recorded in 2009, 2008 or 2007.

**Intangible Assets Other Than Goodwill**

We account for intangible assets in accordance with FASB ASC Topic 350 Intangibles Goodwill and Other. This topic requires that certain identifiable intangible assets be amortized over their expected useful lives.

**Goodwill**

Goodwill represents the excess of the cost of an acquired business over the net of the amounts assigned to assets acquired and liabilities assumed. Under the provisions of FASB ASC Topic 350, goodwill is required to be tested at the reporting unit level for impairment on an annual basis and between annual tests whenever indications of impairment arise. Impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for the excess. In accordance with FASB ASC Topic 350, we aggregate our business components into reporting units and test for goodwill impairment. In testing for a potential impairment of goodwill, we estimate the fair value of each of our reporting units and compare this fair value to the carrying value of the reporting units. In estimating the fair value of our reporting units on an annual basis, we use a discounted cash flow analysis, which involves estimating the expected after-tax cash flows that will be generated by each of the reporting units and then discounting these cash flows to present value. Pursuant to our policy, we performed the annual goodwill impairment test as of April 30, 2009 and determined that no impairment of goodwill existed as of that date. Further, we evaluated whether any events have occurred or any circumstances have changed since April 30, 2009 that would indicate goodwill may have become impaired since our annual impairment test. In this evaluation, we considered qualitative factors such as any adverse change in the business climate, any loss of key personnel, and any unanticipated competition. Additionally, we considered quantitative factors such as our current estimates of the future profitability of our reporting units, our current stock price, and our market capitalization compared to our book value. As a result of the significant decline in the price of our common stock as discussed in note 3. Restatement of Previously-Issued Financial Statements, we engaged in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009. As a result of the impairment analysis, we recorded a \$106.0 million non-cash pretax charge for the impairment of goodwill. This impairment charge was recognized to reduce the carrying value of goodwill in our Accounting and Financial Consulting reporting unit (\$59.0 million) and our Corporate Consulting reporting unit (\$47.0 million). See note 6.

Goodwill and Intangible Assets for further discussion of the impairment charge.

**Non-Current Liabilities**

We record certain liabilities that are expected to be settled over a period that exceeds one year as non-current liabilities. We have also recorded as non-current the portion of the deferred lease incentive liability

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that we expect to recognize over a period greater than one year. The deferred lease incentive liability totaled \$8.7 million at both December 31, 2009 and 2008 and was primarily generated from tenant improvement allowances and rent abatement. Deferred lease incentives are amortized on a straight-line basis over the life of the lease. The portion of the deferred lease incentive corresponding to the rent payments that will be paid within twelve months of the balance sheet date is classified as current liabilities. We monitor the classification of such liabilities based on the expectation of their utilization periods.

**Income Taxes**

We account for income taxes in accordance with FASB ASC Topic 740 *Income Taxes*. Current tax liabilities and assets are recognized for the estimated taxes payable or refundable on the tax returns for the current year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. To the extent that deferred tax assets will not likely be recovered from future taxable income, a valuation allowance is established against such deferred tax assets.

**Share-Based Compensation**

We account for share-based compensation in accordance with FASB ASC Topic 718 *Compensation - Stock Compensation*. Under FASB ASC Topic 718, we recognize share-based compensation ratably using the straight-line attribution method over the requisite service period. Share-based compensation cost is measured based on the grant date fair value of the respective awards. In addition, pursuant to ASC Topic 718, we estimate the amount of expected forfeitures when calculating share-based compensation.

**Sponsorship and Advertising Costs**

Sponsorship and advertising costs are expensed as incurred. Such expenses for 2009, 2008 and 2007 totaled \$4.5 million, \$4.3 million and \$3.8 million, respectively, and are a component of selling, general and administrative expense on our consolidated statement of operations.

**Foreign Currency**



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Assets and liabilities of foreign subsidiaries whose functional currency is not the United States Dollar (USD) are translated into the USD using the exchange rates in effect at period end. Revenue and expense items are translated using the average exchange rates for the period. Foreign currency translation adjustments are included in accumulated other comprehensive income, which is a component of stockholders' equity.

Foreign currency transaction gains and losses are included in other income (expense) on the statements of operations. We recognized net foreign currency transactions gains of \$0.2 million in 2009, foreign currency transaction losses of \$0.9 million in 2008, and immaterial foreign currency transaction gains or losses in 2007.

### **Segment Reporting**

FASB ASC Topic 280 Segment Reporting establishes annual and interim reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and

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**HURON CONSULTING GROUP INC.**

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major customers. Segments are defined by FASB ASC Topic 280 as components of a company in which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker manages the business under four operating segments: Health and Education Consulting, Accounting and Financial Consulting, Legal Consulting, and Corporate Consulting.

**New Accounting Pronouncements**

In September 2006, the FASB issued a new accounting pronouncement regarding fair value (formerly SFAS No. 157 Fair Value Measurements ). This pronouncement, located within FASB ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. This pronouncement does not require any new fair value measurements in financial statements, but standardizes its definition and guidance in GAAP. We adopted this pronouncement effective beginning on January 1, 2008 for financial assets and financial liabilities, which did not have any impact on our financial statements. In February 2008, the FASB delayed by one year the effective date of this pronouncement for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted this pronouncement effective beginning on January 1, 2009 for nonfinancial assets and nonfinancial liabilities, which did not have any impact on our financial statements.

In February 2007, the FASB issued a new accounting pronouncement on the fair value option for financial assets and financial liabilities (formerly SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 ). This pronouncement, located within FASB ASC Topic 825, Financial Instruments , permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We adopted this pronouncement effective beginning on January 1, 2008. The adoption of this statement did not have any impact on our financial statements.

In December 2007, the FASB issued a new accounting pronouncement regarding business combinations (formerly SFAS No. 141 (revised 2007), Business Combinations ). This pronouncement, located within FASB ASC Topic 805, Business Combinations , was issued to improve the relevance, representational faithfulness, and comparability of information in financial statements about a business combination and its effects. This pronouncement retains the purchase method of accounting for business combinations, but requires a number of changes. The changes that may have the most significant impact on us include: contingent consideration, such as earn-outs, will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled; acquisition-related transaction and restructuring costs will be expensed as incurred; previously-issued financial information will be revised for subsequent adjustments made to finalize the purchase price accounting; reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings, except in certain situations. FASB ASC Topic 805 also requires an acquirer to recognize at fair value, an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value can be determined on the date of acquisition. We adopted this new guidance on a prospective basis effective beginning on January 1, 2009. For business combinations completed on or subsequent to the adoption date, the application of this pronouncement may have a significant impact on our



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**HURON CONSULTING GROUP INC.**

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financial statements, the magnitude of which will depend on the specific terms and conditions of the transactions. In 2009, our first year of adoption, the application of this pronouncement did not have a significant impact on our financial statements.

In December 2007, the FASB issued a new accounting pronouncement regarding noncontrolling interests and the deconsolidation of a subsidiary (formerly SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ). This pronouncement, located under FASB ASC Topic 810, Consolidation , was issued to improve the relevance, comparability, and transparency of financial information provided in financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. We adopted this pronouncement effective beginning on January 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements.

In March 2008, the FASB issued a new accounting pronouncement regarding derivative and hedging activities (formerly SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ). This pronouncement, located under FASB ASC Topic 815, Derivatives and Hedging, was issued to improve transparency of financial information provided in financial statements by requiring expanded disclosures about an entity s derivative and hedging activities. This pronouncement requires entities to provide expanded disclosures about: how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. We adopted this pronouncement effective beginning on January 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

In April 2009, the FASB issued a new accounting pronouncement regarding interim disclosures about fair value of financial instruments (formerly FSP FAS 107-1 and Accounting Principles Board ( APB ) Opinion No. 28-1 Interim Disclosures about Fair Value of Financial Instruments ). This pronouncement, located under FASB ASC Topic 825, Financial Instruments, increases the frequency of fair value disclosures by requiring both interim and annual disclosures. We adopted this pronouncement on a prospective basis effective beginning on April 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

In May 2009, the FASB issued a new accounting pronouncement regarding subsequent events (formerly SFAS No. 165 Subsequent Events ). This pronouncement, located under FASB ASC Topic 855, Subsequent Events, was issued to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This pronouncement requires entities to disclose the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date the financial statements were available to be issued. We adopted this pronouncement on a prospective basis effective beginning on April 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

In June 2009, the FASB issued a new accounting pronouncement regarding authoritative GAAP (formerly SFAS No. 168 The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted



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Accounting Principles ). This pronouncement, located under FASB ASC Topic 105, Generally Accepted Accounting Principles, establishes the FASB Accounting Standards Codification ( Codification ) as the source of authoritative GAAP recognized by the FASB for nongovernmental entities. Rules and interpretive releases of the SEC under federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. All other non-grandfathered non-SEC accounting literature not included in the Codification is nonauthoritative. We adopted this pronouncement effective beginning on July 1, 2009. The adoption of this pronouncement did not have any impact on our financial statements as it contains only disclosure requirements.

In June 2009, the FASB issued a new accounting pronouncement regarding disclosures about transfers of financial assets and interests in variable interest entities (formerly SFAS No. 167, Amendments to FASB Interpretation No. 46(R) ). This pronouncement, located under FASB ASC Topic 810, Consolidation , was issued to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. This pronouncement requires an enterprise to perform an ongoing analysis to determine whether the enterprise has a controlling financial interest in a variable interest entity. This pronouncement will be effective for us beginning on January 1, 2010. We do not expect the application of this pronouncement to have a significant impact on our future financial position, results of operations, earnings per share, and cash flows.

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

**Subsequent Event**

We have evaluated subsequent events since December 31, 2009 and up to the filing of this annual report on Form 10-K on February 23, 2010 and have concluded that no significant subsequent events have occurred that require disclosure.

**3. Restatement of Previously-Issued Financial Statements**

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

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- Amendment No. 1 on Form 10-K/A, filed with the SEC on August 17, 2009, to our annual report on Form 10-K for the year ended December 31, 2008, originally filed on February 24, 2009.
- Amendment No. 1 on Form 10-Q/A, filed with the SEC on August 17, 2009, to our quarterly report on Form 10-Q for the period ended March 31, 2009, originally filed on April 30, 2009.

The restatement relates to four businesses that we acquired between 2005 and 2007 (the Acquired Businesses ). Pursuant to the purchase agreements for each of these acquisitions, payments were made by us to the selling shareholders (1) upon closing of the transaction, (2) in some cases, upon the Acquired Businesses achieving specific financial performance targets over a number of years ( earn-outs ), and (3) in one case, upon the buy-out of an obligation to make earn-out payments. These payments are collectively referred to as acquisition-related payments.

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The acquisition-related payments made by us to the selling shareholders represented purchase consideration. As such, these payments, to the extent that they exceeded the net of the fair value assigned to assets acquired and liabilities assumed, were properly recorded as goodwill, in accordance with GAAP. Payments made upon the closing of the acquisition were recorded as goodwill on the date of closing. Earn-out payments were recorded as purchase consideration resulting in additional goodwill when the financial performance targets were met by the Acquired Businesses. The payment made upon the buy-out of an obligation to make earn-out payments was recorded as goodwill on the date of the buy-out.

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

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

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

The restatement was necessary because we failed to account for the Shareholder Payments and the Employee Payments in accordance with GAAP. The selling shareholders were not prohibited from making the Shareholder Payments or the Employee Payments under the terms of the purchase agreements with the Company for the acquisitions of the Acquired Businesses. However, under GAAP, including guidance promulgated by the SEC, actions of economic interest holders in a company may be imputed to the company itself. The selling shareholders of the Acquired Businesses meet the criteria of economic interest holders of Huron due to their ability to earn additional consideration from Huron. As such, when the selling shareholders redistribute acquisition-related payments among themselves or redistribute a portion of their acquisition-related payments to our employees who were not selling shareholders based on employment or performance-based criteria, these payments are viewed as resulting from services that are assumed to have benefited Huron and must therefore be recorded as non-cash compensation expense incurred by Huron under GAAP. Accordingly, the Employee Payments and the Shareholder Payments are imputed to us. In the case of the Shareholder Payments, such payments are imputed to us even when the amounts that are received by the selling shareholders in the redistribution do not differ significantly from the amounts the selling shareholders would have received if the portion of the acquisition-related payments redistributed based on performance or





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**HURON CONSULTING GROUP INC.**

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employment had been distributed solely in accordance with the ownership interests of the applicable selling shareholders on the date we acquired the business. In effect, the Shareholder Payments and the Employee Payments are in substance a second and separate transaction from our acquisition of the Acquired Businesses, which should have been recorded as a separate non-cash accounting entry. Both the Shareholder Payments and the Employee Payments are therefore required to be reflected as non-cash compensation expense of Huron, and the selling shareholders are deemed to have made a capital contribution to Huron. The entries are non-cash because the payments were made directly by the selling shareholders from the acquisition proceeds they received from us. We did not expend additional cash with respect to the compensation charge.

As a result of the correction of the accounting errors, which are not tax deductible, related to the accounting for the acquisition-related payments, we recalculated our provision for income taxes for each of the quarterly periods using the annual effective income tax rate method in accordance with FASB ASC Topic 740, *Income Taxes*. As such, our interim quarterly provision for income taxes decreased in certain periods and increased in others, with a corresponding change in income tax receivable or payable. However, there is no change to our provision for income taxes or our tax accounts on an annual basis. While the correction of these errors significantly reduced our net income and earnings per share for each of the affected periods, it had no effect on our total assets, total liabilities, or total stockholders' equity on an annual basis. Further, the correction of these errors had no effect on our net cash flows.

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

In light of these determinations and given the magnitude of the accounting errors underlying the restatement, our Board of Directors concluded that it was appropriate for the Company to appoint a new Chairman, a new Chief Executive Officer, a new Chief Financial Officer and a new Chief Accounting Officer. Our Board of Directors and Gary Holdren, our then Chief Executive Officer, agreed that he should resign as Chairman of the Board and Chief Executive Officer. George Massaro, who was the then Vice Chairman of the Board of Directors, was elected as our Non-Executive Chairman of the Board of Directors. James Roth, one of the founders of the Company, was named Chief Executive Officer. James Rojas, another founder of the Company, was named Chief Financial Officer, succeeding Gary Burge who remained with the Company until the end of 2009. Wayne Lipski, previously Chief Accounting Officer, ended employment with the Company during the third quarter and provided certain services to the Company as an independent consultant through January 2010. On November 3, 2009, James Roth was appointed to the Board of Directors and James Rojas was appointed Treasurer, in addition to his current position of Chief Financial Officer. The role of Chief Accounting Officer has not been filled.

Based on the results of the Company's inquiry into the acquisition-related payments to date and the agreement amendments described below, earn-outs for the period after August 1, 2009 are accounted for as additional purchase consideration and not also as non-cash compensation expense. Effective August 1, 2009,



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the selling shareholders of two of the Acquired Businesses each amended certain agreements related to the earn-outs to provide that future earn-outs will be distributed only to the applicable selling shareholders and only in accordance with their equity interests on the date we acquired the business with no required continuing employment. The amended agreements provide that no further Shareholder Payments or Employee Payments will be made. We recognized \$8.3 million of non-cash compensation expense during 2009 related to Shareholder Payments and Employee Payments. We expect to incur a moderate increase in cash compensation expense in future periods related to Shareholder Payments and Employee Payments for such periods. We incurred cash compensation expense related to Shareholder Payments and Employee Payments of \$3.6 million in 2009, and we currently expect to incur no more than \$4 million in each of 2010 and 2011. Earn-out payments for one of the Acquired Businesses are payable through December 31, 2011. There are no additional earn-out obligations related to the other three Acquired Businesses.

On August 4, 2009, we signed an Acknowledgment and Consent Agreement with respect to our Revolving Credit and Term Loan Credit Agreement (the Credit Agreement ). We requested an advance of \$6.0 million under the revolving credit facility to fund working capital needs during the interim period while we restated our financial statements. The lenders agreed to this request subject to a reservation of rights under the Credit Agreement. This advance, together with collections on our accounts receivable, provided adequate working capital during the interim period prior to the restatement of our financial statements.

On September 30, 2009, we entered into an eighth amendment to the Credit Agreement (the Eighth Amendment to the Credit Agreement ) and a security agreement with Bank of America as Administrative Agent (the Security Agreement ), each of which is described in note 8. Borrowings.

Following entry into the Eighth Amendment to the Credit Agreement, we were in compliance with all of the applicable debt covenants at September 30, 2009. In addition, based upon projected operating results, management believes it is probable that we will meet the financial covenants of the Credit Agreement discussed above, as amended, at future covenant measurement dates. Accordingly, pursuant to the provisions of FASB ASC Topic 470, Debt , all amounts not due within the next twelve months under the amended loan terms have been classified as long-term liabilities. In the absence of the Eighth Amendment to the Credit Agreement, we would not have been in compliance with the then existing debt covenants. See note 8. Borrowings for a discussion of the Credit Agreement, the Eighth Amendment to the Credit Agreement and the Security Agreement.

On July 31, 2009, immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day next following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in the price of our common stock, we engaged in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009 and recorded a \$106.0 million non-cash pretax charge for the impairment of goodwill. This impairment charge was recognized to reduce the carrying value of goodwill in our Accounting and Financial Consulting reporting unit (\$59.0 million) and our Corporate Consulting reporting unit (\$47.0 million). The impairment charge was non-cash in nature and did not affect the Company's liquidity. As described in note 8. Borrowings , under the definition of consolidated EBITDA under the Credit Agreement, as amended, the impairment charge was an add back for the period ended September 30, 2009. See note 6. Goodwill and Intangible Assets for additional information about the impairment charge.



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

The SEC has commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. As often happens in these circumstances, the United States Attorney's Office ( USAO ) for the Northern District of Illinois has contacted our counsel. The USAO made a telephonic request for copies of certain documents that we previously provided to the SEC, which we have voluntarily provided to the USAO.

In addition, several purported shareholder class action complaints, since consolidated, and derivative lawsuits have been filed in connection with the restatement. See note 19. Commitments, Contingencies and Guarantees for a discussion of the SEC investigations, the USAO's request for certain documents, and the purported private shareholder class action lawsuit and derivative lawsuits.

The table below summarizes the impact of the Shareholder Payments and Employee Payments on our consolidated statements of operations for the year ended December 31, 2009, 2008 and 2007 (in thousands, except earnings per share).

|  | 2009              | 2008               | 2007               |
|--|-------------------|--------------------|--------------------|
| Shareholder Payments   | \$ 8,015          | \$ 25,188          | \$ 12,798          |
| Employee Payments  | 318               | 5,382              | 4,823              |
| <b>Total Non-cash Compensation Expense</b>                                 | <b>\$ 8,333</b>   | <b>\$ 30,570</b>   | <b>\$ 17,621</b>   |
| Impact on Consolidated Statement Of Operations:                            |                   |                    |                    |
| Increase in Direct Costs   | \$ 7,501          | \$ 26,520          | \$ 15,014          |
| Increase (Decrease) in Provision for Income Taxes                          | \$                | \$                 | \$                 |
| <b>Decrease in Income (loss) from continuing operations</b>                | <b>\$ (7,501)</b> | <b>\$ (26,520)</b> | <b>\$ (15,014)</b> |
| <b>Decrease in Income (loss) from discontinued operations</b>              | <b>\$ (832)</b>   | <b>\$ (4,050)</b>  | <b>\$ (2,607)</b>  |
| <b>Decrease in Net income</b>  | <b>\$ (8,333)</b> | <b>\$ (30,570)</b> | <b>\$ (17,621)</b> |
| <b>Decrease in Basic Earnings Per Share from continuing operations</b>     | <b>\$ (0.37)</b>  | <b>\$ (1.45)</b>   | <b>\$ (0.89)</b>   |
| <b>Decrease in Diluted Earnings Per Share from continuing operations</b>   | <b>\$ (0.37)</b>  | <b>\$ (1.39)</b>   | <b>\$ (0.83)</b>   |
| <b>Decrease in Basic Earnings Per Share from discontinued operations</b>   | <b>\$ (0.04)</b>  | <b>\$ (0.22)</b>   | <b>\$ (0.15)</b>   |
| <b>Decrease in Diluted Earnings Per Share from discontinued operations</b> | <b>\$ (0.04)</b>  | <b>\$ (0.21)</b>   | <b>\$ (0.14)</b>   |
| <b>Decrease in Basic Earnings Per Share</b>                                | <b>\$ (0.41)</b>  | <b>\$ (1.68)</b>   | <b>\$ (1.04)</b>   |
| <b>Decrease in Diluted Earnings Per Share</b>                              | <b>\$ (0.41)</b>  | <b>\$ (1.60)</b>   | <b>\$ (0.97)</b>   |

Expenses incurred in connection with the restatement totaled \$17.5 million for the year ended December 31, 2009. Expenses incurred in connection with the restatement are primarily comprised of legal and accounting fees, as well as the settlement costs of an indemnification claim arising in connection with a representation and warranty in a purchase agreement for a previous acquisition.

**4. Discontinued Operations**

In December 2009, our Board of Directors approved a plan to divest two businesses within the Accounting and Financial Consulting and Corporate Consulting operating segments. As part of the strategy to focus on our core businesses, we have committed to a plan to sell the portion of the international operations that include the office and respective operations in Japan, which is a component of both the Accounting and Financial

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

Consulting and Corporate Consulting segments. Additionally, on December 31, 2009 we completed the sale of Galt, a strategy business within the Corporate Consulting segment which was acquired in April 2006, back to its three principals and recorded a related loss on disposal of \$0.4 million. The Company expects to complete the sale of its Japan operations within one year from the balance sheet date. As a result of these actions, the operating results of Japan and Galt are reported as discontinued operations for 2009. All other operations of the business are considered continuing operations. Amounts previously reported have been reclassified to conform with this presentation in accordance with FASB ASC Topic 205 Presentation of Financial Statements to allow for meaningful comparison. The Consolidated Balance Sheet as of December 31, 2009 and 2008 aggregates amounts associated with the discontinued operations as described above. Summarized operating results of discontinued operations are presented in the following table (amounts in thousands):

|   | Year ended<br>December 31, 2009 |            |             | Year ended<br>December 31, 2008 |            |           | Year ended<br>December 31, 2007 |            |           |
|---|---------------------------------|------------|-------------|---------------------------------|------------|-----------|---------------------------------|------------|-----------|
|   | Galt                            | Japan      | Total       | Galt                            | Japan      | Total     | Galt                            | Japan      | Total     |
| Revenues  | \$ 27,253                       | \$ 7,994   | \$ 35,247   | \$ 31,984                       | \$ 9,717   | \$ 41,701 | \$ 27,011                       | \$ 1,512   | \$ 28,523 |
| Income (loss) from discontinued operations before provision for income taxes (1)(2) | \$ (25,745)                     | \$ (7,832) | \$ (33,577) | \$ 13,674                       | \$ (2,379) | \$ 11,295 | \$ 10,310                       | \$ (2,164) | \$ 8,146  |
| Net (loss) income from discontinued operations                                      | \$ (15,679)                     | \$ (2,705) | \$ (18,384) | \$ 6,934                        | \$ (2,379) | \$ 4,555  | \$ 5,153                        | \$ (2,164) | \$ 2,989  |

- (1) Includes non-cash compensation expense of \$0.8 million, \$4.0 million and \$2.6 million for the years ended December 31, 2009, 2008 and 2007.
- (2) Includes goodwill impairment charge of \$39.0 million for the year ended December 31, 2009.

The carrying amounts of the major classes of assets and liabilities aggregated in discontinued operations in the consolidated balance sheet as of December 31, 2009 and 2008 are as follows (amounts in thousands):

|                               | As of December 31, 2009 |          |          | As of December 31, 2008 |          |           |
|-------------------------------|-------------------------|----------|----------|-------------------------|----------|-----------|
|                               | Galt                    | Japan    | Total    | Galt                    | Japan    | Total     |
| <b>Assets</b>                 |                         |          |          |                         |          |           |
| Cash                          | \$                      | \$ 744   | \$ 744   | \$                      | \$ 1,702 | \$ 1,702  |
| Receivables from clients, net |                         | 713      | 713      | 7,228                   | 1,447    | 8,675     |
| Other current assets          | 14                      | 2,810    | 2,824    | 210                     | 244      | 454       |
| Total current assets          | 14                      | 4,267    | 4,281    | 7,438                   | 3,393    | 10,831    |
| Other non-current assets      |                         | 29       | 29       | 540                     | 2,327    | 2,867     |
| Total assets                  | \$ 14                   | \$ 4,296 | \$ 4,310 | \$ 7,978                | \$ 5,720 | \$ 13,698 |
| <b>Liabilities</b>            |                         |          |          |                         |          |           |
| Accounts payable              | \$                      | \$ 54    | \$ 54    | \$                      | \$ 104   | \$ 104    |



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|  |                 |                 |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Accrued payroll and related benefits   | 4,620           | 893             | 5,513           | 5,374           | 334             | 5,708           |
| Income tax payable                     | 714             | 78              | 792             | 375             | (1)             | 374             |
| Accrued expenses and other liabilities | 290             | 416             | 706             | 375             | 477             | 852             |
| <b>Total current liabilities</b>       | <b>5,624</b>    | <b>1,441</b>    | <b>7,065</b>    | <b>6,124</b>    | <b>914</b>      | <b>7,038</b>    |
| Other non-current liabilities          |                 | 416             | 416             |                 | 230             | 230             |
| <b>Total liabilities</b>               | <b>\$ 5,624</b> | <b>\$ 1,857</b> | <b>\$ 7,481</b> | <b>\$ 6,124</b> | <b>\$ 1,144</b> | <b>\$ 7,268</b> |

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**5. Business Combinations**

During the years ended December 31, 2008 and 2007, we completed the material acquisitions described below. We did not complete any significant acquisitions in 2009.

**2008 Acquisition**

**Stockamp & Associates, Inc.**

In July 2008, we acquired Stockamp & Associates, Inc. ( Stockamp ), a management consulting firm specializing in helping high-performing hospitals and health systems optimize their financial and operational performance. With the acquisition of Stockamp, we expanded our presence in the hospital consulting market and are better positioned to serve multiple segments of the healthcare industry, including major health systems, academic medical centers and community hospitals. This acquisition was consummated on July 8, 2008 and the results of operations of Stockamp have been included within our Health and Education Consulting segment since that date.

The aggregate purchase price of this acquisition was approximately \$270.5 million, consisting of \$168.5 million in cash paid at closing, \$50.0 million paid through the issuance of 1,100,740 shares of our common stock, \$1.7 million of transaction costs, \$49.5 million of additional purchase price earned by selling shareholders subsequent to the acquisition, as certain performance targets were met, and a \$0.8 million working capital adjustment. Of the 1,100,740 shares of common stock issued, 330,222 shares with an aggregate value of \$15.0 million were deposited into escrow for a period of one year, beginning on July 8, 2008, to secure certain indemnification obligations of Stockamp and its shareholders. Since the shares placed in escrow may have had to be returned to us in satisfaction of indemnification arrangements, they were issued conditionally. As such, the \$15.0 million was classified as a liability and included in accrued consideration for business acquisitions on our consolidated balance sheet from the acquisition date until the shares were released as discussed below. The cash portion of the purchase price was financed with borrowings under the Credit Agreement.

The purchase agreement also provides for the following potential payments:

1. With respect to the shares of common stock not placed in escrow, on the date that was six months and one day after the closing date (the Contingent Payment Date ), we were to pay Stockamp (in cash, shares of common stock, or any combination of cash and common stock, at our election) the amount, if any, equal to \$35.0 million less the value of the common stock issued on the closing date, based on 95% of the average daily closing price per share of common stock for the ten consecutive trading days prior to the Contingent Payment Date. No

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payment needed to be made if the common stock so valued equaled or exceeded \$35.0 million on the Contingent Payment Date. We were not required to make further payments upon the lapse of the Contingent Payment Date in January 2009.

2. With respect to the shares of common stock placed in escrow, when the shares were released to Stockamp in July 2009 (the Contingent Escrow Payment Date), we were to pay Stockamp (in cash, shares of common stock, or any combination of cash and common stock at our election) the amount, if any, equal to \$15.0 million (or such pro rata portion thereof, to the extent fewer than all shares were being released) less the value of the common stock released from escrow based on 95% of the average daily closing price per share of common stock for the ten consecutive trading days prior to the Contingent Escrow Payment Date. No payment needed to be made if the common stock so valued equaled or

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

exceeded \$15.0 million on the Contingent Escrow Payment Date (or the applicable pro rata portion thereof). Based on the average daily closing price of our common stock for the ten consecutive trading days prior to the Contingent Escrow Payment Date in July 2009, we made a price protection payment of \$0.2 million to Stockamp. This price protection payment did not change the purchase consideration. Upon the lapse of the Contingent Escrow Payment Date in July 2009, the escrow liability balance and price protection payment were recorded to equity.

3. For the period beginning on the closing date and ending on December 31, 2011, additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met. These payments are not contingent upon the continuing employment of the selling shareholders. Such amounts will be recorded as additional purchase consideration and an adjustment to goodwill. Since the closing date of this acquisition, we have paid to the selling shareholders \$9.6 million as additional purchase consideration. As of December 31, 2009, \$39.9 million of additional purchase consideration earned by selling shareholders was accrued and expected to be paid in the first quarter of 2010.

The identifiable intangible assets that were acquired totaled \$31.1 million and have an estimated weighted average useful life of 6 years, which consists of customer contracts totaling \$5.4 million (7 months useful life), customer relationships totaling \$10.8 million (12.5 years useful life), software totaling \$7.8 million (4 years useful life), non-competition agreements totaling \$3.7 million (6 years useful life), and a tradename valued at \$3.4 million (2.5 years useful life). Customer relationships represent software support and maintenance relationships that are renewable by the customer on an annual basis. The renewal rate of these relationships has historically been high and as such, we have assigned a relatively long useful life to these customer relationships. Additionally, we recorded approximately \$236.4 million of goodwill, which we intend to deduct for income tax purposes.

## **2007 Acquisitions**

### **Callaway Partners, LLC**

In July 2007, we acquired Callaway Partners, LLC ( Callaway ), a professional services firm that specializes in finance and accounting projects, financial reporting, internal audit and controls, and corporate tax solutions. With Callaway s extensive senior consultant and project management skills, along with its variable, on-demand workforce, we are better positioned to assist clients with their accounting and corporate compliance challenges. This acquisition was consummated on July 29, 2007 and the results of operations of Callaway have been included within our Accounting and Financial Consulting segment since that date.

The aggregate purchase price of this acquisition was approximately \$88.4 million, consisting of \$58.5 million in cash paid at closing, \$1.5 million in cash paid upon the collection of receivables acquired, \$0.6 million of transaction costs, a \$4.8 million working capital adjustment, and \$23.0 million paid in the form of a note payable relating to the settlement of the earn-out provision in the Callaway Asset Purchase Agreement, as described below. The \$58.5 million paid at closing was financed with borrowings under our bank credit agreement.

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On April 4, 2008, we entered into an amendment to the Callaway Asset Purchase Agreement dated as of July 28, 2007, whereby we settled the earn-out provision under Section 3.3 of the agreement in consideration for \$23.0 million, payable in the form of a promissory note (the Note), and the waiver of certain indemnity obligations. The Note, along with accrued interest of \$0.5 million, was paid in full on August 15, 2008.

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The identifiable intangible assets that were acquired totaled \$5.7 million and have an estimated weighted average useful life of 27 months, which consists of customer contracts totaling \$1.9 million (5 months useful life), customer relationships totaling \$2.4 million (19 months useful life), and non-competition agreements totaling \$1.4 million (72 months useful life). Additionally, we recorded approximately \$72.0 million of goodwill, which we intend to deduct for income tax purposes.

**Wellspring Partners LTD**

In January 2007, we acquired Wellspring Partners LTD ( Wellspring ), a management consulting firm specializing in integrated performance improvement services for hospitals and health systems. With the acquisition of Wellspring, we expanded our national presence in the healthcare provider sector and now provide a full complement of services to a wide spectrum of hospitals and multi-hospital systems. This acquisition was consummated on January 2, 2007 and the results of operations of Wellspring have been included within our Health and Education Consulting segment since that date.

The aggregate purchase price of this acquisition was approximately \$143.7 million, consisting of \$64.7 million in cash paid at closing, \$0.4 million of transaction costs, a \$0.7 million working capital adjustment, \$0.3 million in cash paid upon the collection of receivables acquired, \$57.6 million of additional purchase price earned by selling shareholders subsequent to the acquisition, as certain performance targets were met, and \$20.0 million to settle certain earn-out provisions as described below. We financed this acquisition with a combination of cash on hand and borrowings of \$55.0 million under our bank credit agreement. Additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met over a five-year period. These payments are not contingent upon the continuing employment of the selling shareholders. Such amounts will be recorded as additional purchase price and an adjustment to goodwill. Since the closing date of this acquisition, we have paid to the selling shareholders \$49.0 million as additional purchase consideration. As of December 31, 2009, \$8.6 million of additional purchase consideration earned by selling shareholders was accrued and expected to be paid in the first quarter of 2010.

Concurrent with the Stockamp acquisition described above, on July 8, 2008 we entered into an amendment to the Wellspring Stock Purchase Agreement ( Wellspring Amendment ). Effective January 1, 2009, in connection with the Stockamp acquisition, we combined Wellspring's revenue cycle business with Stockamp's revenue cycle business. As such, Wellspring will no longer be eligible for earn-out payments pertaining to that portion of the Wellspring business. In consideration for this, we paid the sellers \$20.0 million through the issuance of 440,296 shares of our common stock. In addition, we provided Wellspring with a protection against a decline in the value of the shares issued. We were not required to make further payments upon the lapse of the price protection in January 2009. The earn-out provision, as amended, pertaining to the non-revenue cycle portion of Wellspring's business will remain in effect through December 31, 2011.

The identifiable intangible assets that were acquired totaled \$13.1 million and have an estimated weighted average useful life of 26 months, which consists of customer contracts totaling \$4.7 million (9 months useful life), customer relationships totaling \$3.9 million (20 months useful life), non-competition agreements totaling \$2.4 million (72 months useful life), and a tradename valued at \$2.1 million (24 months useful life). Additionally, we recorded approximately \$134.1 million of goodwill, which we cannot deduct for income tax purposes.



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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**Glass & Associates, Inc.**

Also in January 2007, we acquired Glass & Associates, Inc. ( Glass ), a turnaround and restructuring consulting firm that provides advice and leadership to troubled businesses in the United States and Europe. With the acquisition of Glass, we expanded our position in the consulting and restructuring marketplace, as well as expanded our interim management capabilities to distressed companies in industries beyond healthcare. The stock purchase agreement for this acquisition was executed on January 2, 2007 and the transaction was consummated on January 9, 2007 upon the satisfaction of certain closing conditions. The results of operations of Glass have been included within our Corporate Consulting segment since January 2, 2007.

The aggregate purchase price of this acquisition was approximately \$38.4 million, consisting of \$30.0 million in cash paid at closing, \$0.9 million of transaction costs, a \$1.0 million working capital adjustment, \$1.7 million cash paid to sellers for a tax election reimbursement, and \$4.8 million of additional purchase price earned by selling shareholders subsequent to the acquisition, as certain performance targets were met. We financed this acquisition with a combination of cash on hand and borrowings of \$20.0 million under our bank credit agreement. Additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met over a four-year period. These payments are not contingent upon the continuing employment of the selling shareholders. Such amounts will be recorded as additional purchase price and an adjustment to goodwill. Since the closing date of this acquisition, we have paid to the selling shareholders \$1.6 million as additional purchase consideration. As of December 31, 2009, \$3.2 million of additional purchase consideration earned by selling shareholders was accrued and expected to be paid in the first quarter of 2010. Also, additional payments may be made based on the amount of revenues we receive from referrals made by certain employees of Glass over a four-year period. Such amounts will be recorded as an expense.

The identifiable intangible assets that were acquired totaled \$4.3 million and have an estimated weighted average useful life of 37 months, which consists of customer contracts totaling \$1.0 million (6 months useful life), customer relationships totaling \$1.1 million (19 months useful life), and non-competition agreements totaling \$2.2 million (60 months useful life). Additionally, we recorded approximately \$32.9 million of goodwill, which we intend to deduct for income tax purposes.

In addition to the accounting treatment described above with respect to the foregoing acquisitions, in certain of these acquisitions, portions of the purchase consideration that were redistributed by the selling shareholders among the selling shareholders and to certain of our employees based on performance or employment were also recorded as non-cash compensation expense. See note 3. Restatement of Previously-Issued Financial Statements for additional information.



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

(Tabular amounts in thousands, except per share amounts)

**Purchase Price Allocations**

The following table summarizes the fair values of the assets acquired and liabilities assumed for our material business acquisitions.

|                             | <b>Stockamp<br/>July 8,<br/>2008</b> | <b>Callaway<br/>July 29,<br/>2007</b> | <b>Wellspring<br/>January 2,<br/>2007</b> | <b>Glass<br/>January 2,<br/>2007</b> |
|-----------------------------|--------------------------------------|---------------------------------------|---|--------------------------------------|
| <b>Assets Acquired:</b>     |                                      |                                       |   |                                      |
| Current assets              | \$ 16,857                            | \$ 12,418                             | \$ 9,868                                  | \$ 2,705                             |
| Property and equipment      | 2,176                                | 698                                   | 1,073                                     | 215                                  |
| Non-current assets          | 547                                  | 23                                    |   | 23                                   |
| Intangible assets           | 31,100                               | 5,700                                 | 13,100                                    | 4,300                                |
| Goodwill                    | 236,449                              | 72,007                                | 134,093                                   | 32,893                               |
|                             | 287,129                              | 90,846                                | 158,134                                   | 40,136                               |
| <b>Liabilities Assumed:</b> |                                      |                                       |   |                                      |
| Current liabilities         | 16,018                               | 2,354                                 | 9,128                                     | 1,727                                |
| Non-current liabilities     | 525                                  | 94                                    | 5,278                                     |                                      |
|                             | 16,543                               | 2,448                                 | 14,406                                    | 1,727                                |
| <b>Net Assets Acquired</b>  | <b>\$ 270,586</b>                    | <b>\$ 88,398</b>                      | <b>\$ 143,728</b>                         | <b>\$ 38,409</b>                     |

**Pro Forma Financial Data****2008 Acquisition**

The following unaudited pro forma financial data gives effect to the acquisition of Stockamp as if it had been completed at the beginning of the period presented. The actual results from the acquisition of Stockamp have been included within our consolidated financial results since July 8, 2008.

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|   | <b>Historical Huron and<br/>Historical Stockamp</b> |                  |
|---|---|------------------|
|   | <b>2008</b>   | <b>2007</b>      |
|   | <b>Pro forma</b>                                    | <b>Pro forma</b> |
| Revenues, net of reimbursable expenses                              | \$ 631,975  | \$ 547,137       |
| Operating income  | \$ 71,037   | \$ 59,626        |
| Income from continuing operations before provision for income taxes | \$ 50,325   | \$ 43,067        |
| Net income from continuing operations                               | \$ 20,140   | \$ 20,348        |
| Earnings per share:   |   |                  |
| Basic   | \$ 1.08   | \$ 1.15          |
| Diluted   | \$ 1.02   | \$ 1.06          |

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**Table of Contents****HURON CONSULTING GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Tabular amounts in thousands, except per share amounts)****2007 Acquisitions**

The following unaudited pro forma financial data gives effect to the acquisitions of Callaway as if it had been completed at the beginning of the period presented. The actual results from the acquisition of Callaway have been included within our consolidated financial results since July 29, 2007. The actual results from the acquisitions of Wellspring and Glass have been included within our consolidated financial results since January 2, 2007; therefore 2007 pro forma financial information is not presented.

|   | <b>Historical Huron and<br/>Historical Callaway<br/>2007<br/>Pro forma</b> |
|---|--|
| Revenues, net of reimbursable expenses                              | \$ 511,112   |
| Operating income  | \$ 61,438  |
| Income from continuing operations before provision for income taxes | \$ 50,882  |
| Net income from continuing operations                               | \$ 24,960  |
| Earnings per share:   |  |
| Basic   | \$ 1.47  |
| Diluted   | \$ 1.39  |

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

(Tabular amounts in thousands, except per share amounts)

**6. Goodwill and Intangible Assets**

The table below sets forth the changes in the carrying amount of goodwill by segment for the years ended December 31, 2009 and 2008.

|   | <b>Health and<br/>Education<br/>Consulting</b> | <b>Accounting<br/>&amp; Financial<br/>Consulting</b> | <b>Legal<br/>Consulting</b> | <b>Corporate<br/>Consulting</b> | <b>Total</b> |
|---|--|--|-----------------------------|---------------------------------|--------------|
| Balance as of December 31, 2007:  |  |  |                             |                                 |              |
| Goodwill  | \$ 93,561                                      | \$ 50,314  | \$ 15,312                   | \$ 63,866                       | \$ 223,053   |
| Accumulated impairment losses   |  |  |                             |                                 |              |
|   | 93,561   | 50,314   | 15,312                      | 63,866                          | 223,053      |
| Goodwill recorded in connection with business combinations                    |  |  |                             |                                 |              |
| Additional purchase price subsequently recorded for business combinations (1) | 193,705  |  |                             |                                 | 193,705      |
| Additional purchase price paid for the settlement of earn-out provisions (2)  | 34,486   | 27   | 2,144                       | 9,261                           | 45,918       |
|   | 20,000   | 23,000   |                             |                                 | 43,000       |
| Balance as of December 31, 2008:  |  |  |                             |                                 |              |
| Goodwill  | \$ 341,752                                     | \$ 73,341  | \$ 17,456                   | \$ 73,127                       | \$ 505,676   |
| Accumulated impairment losses   |  |  |                             |                                 |              |
|   | 341,752  | 73,341   | 17,456                      | 73,127                          | 505,676      |
| Goodwill recorded in connection with business combinations                    |  |  |                             |                                 |              |
| Additional purchase price subsequently recorded for business combinations (1) |  |  | 1,472                       |                                 | 1,472        |
| Goodwill reallocation   | 48,655   |  | 6,856                       | 10,635                          | 66,146       |
| Goodwill allocated to disposal of Galt (3)                                    | (8,484)  | 8,484  |                             | (3,125)                         | (3,125)      |
| Impairment charge   |  | (59,000)   |                             | (47,000)                        | (106,000)    |
| Balance as of December 31, 2009:  |  |  |                             |                                 |              |
| Goodwill  | 381,923  | 81,825   | 25,784                      | 80,637                          | 570,169      |
| Accumulated impairment losses   |  | (59,000)   |                             | (47,000)                        | (106,000)    |
|   | \$ 381,923                                     | \$ 22,825  | \$ 25,784                   | \$ 33,637                       | \$ 464,169   |

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- (1) Consists of additional purchase price earned by selling shareholders subsequent to the business combination, as certain financial performance targets and conditions were met.
- (2) Consists of additional purchase price paid to the selling shareholders of Wellspring and Callaway in consideration for the settlement of certain earn-out provisions as described in note 5. Business Combinations.
- (3) In accordance with ASC Topic 350, a portion of the goodwill associated with the Corporate Consulting segment as of December 31, 2009 was allocated to the Galt business based on the relative fair value of the business to be disposed of and the portion of the reporting unit that will be retained. Accordingly, goodwill at the corporate consulting segment was decreased by \$3.1 million and included in the loss on disposal of Galt.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

From time to time, we will reorganize our internal organizational structure to better align our service offerings. During the third quarter of 2009, we moved our government contract consulting practice from our Health and Education Consulting segment to our Accounting and Financial Consulting segment. As a result, \$8.5 million of related goodwill was also reallocated between these segments.

On July 31, 2009, we announced our intention to restate our financial statements due to the accounting errors discussed under note 3. Restatement of Previously-Issued Financial Statements. Immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in our stock price, we determined that an event had occurred that may indicate the carrying value of our goodwill may have been impaired. Accordingly, we engaged in an impairment analysis with respect to the carrying value of our goodwill, as of August 3, 2009, in connection with the preparation of our financial statements for the quarter ended September 30, 2009.

In accordance with FASB ASC Topic 350, we aggregate our business components into reporting units and test for goodwill impairment. Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

The SEC has commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. As often happens in these circumstances, the USAO for the Northern District of Illinois contacted our counsel and made a telephonic request for copies of certain documents that we previously provided to the SEC, which we voluntarily provided to the USAO. In addition, several purported shareholder class action complaints, since consolidated, and derivative lawsuits have been filed in connection with our restatement. See note 19. Commitments, Contingencies and Guarantees for a discussion of the SEC investigations, the USAO's request for certain documents and the purported private shareholder class action and derivative lawsuits. As a result of the uncertain nature of these matters and their uncertain effect on our business as well as the related costs and expenses associated with these matters, and based on our then existing backlog, pipeline of new proposal opportunities, and continued uncertain market conditions, we lowered our revenue projections and earnings for the remainder of 2009 and also our longer-term outlook, and increased the discount rates used in the goodwill impairment analysis.

Based on the result of the first step of the goodwill impairment analysis, we determined that the fair values of our Accounting and Financial Consulting and Corporate Consulting reporting units were less than their



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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

carrying values while the fair values of our Health and Education Consulting and Legal Consulting reporting units exceeded their carrying values by 32% and 61%, respectively. As such, we applied the second step of the goodwill impairment test to our Accounting and Financial Consulting and Corporate Consulting reporting units.

Based on the result of the second step of the goodwill impairment analysis, we determined that the carrying values of the goodwill associated with these reporting units exceeded their implied fair values, resulting in a \$106.0 million non-cash pretax goodwill impairment charge. This impairment charge was recognized to reduce the carrying value of goodwill in our Accounting and Financial Consulting reporting unit by \$59.0 million and our Corporate Consulting reporting unit by \$47.0 million. Of the \$47.0 million recognized in the Corporate Consulting reporting unit, \$39.0 million is reported as discontinued operations in the consolidated statement of operations for the year ended December 31, 2009.

Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit (including unrecognized intangible assets) under the second step of the goodwill impairment test requires our management to make significant judgments, estimates and assumptions. 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.

In estimating the fair value of our reporting units, we considered the income approach, the market approach and the cost approach. The income approach recognizes that the value of an asset is premised upon the expected receipt of future economic benefits. This approach involves projecting the cash flows the asset is expected to generate. Fair value indications are developed in the income approach by discounting expected future cash flows available to the investor at a rate which reflects the risk inherent in the investment. The market approach is primarily comprised of the guideline company and the guideline transaction methods. The guideline company method compares the subject company to selected reasonably similar companies whose securities are actively traded in the public markets. The guideline transaction method gives consideration to the prices paid in recent transactions that have occurred in the subject company's industry. The cost approach estimates the fair value of an asset based on the current cost to purchase or replace the asset.

In determining the fair value of our reporting units, 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, such as us, the income and market approaches will generally provide the most reliable indications of value because the value of such companies is more dependent on their ability to generate earnings than on the value of the assets used in the production process. We did not utilize the guideline transaction method due to a limited number of recent transactions and the multiples derived from recent transactions did not provide meaningful value indications for our reporting units. We also did not use the cost approach because our reporting units were valued on a going concern basis. The income approach and market approach both take into account the future earnings potential of our reporting units.

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 each of the reporting units and then discounting these 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



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growth rates and profitability, among others. In estimating future cash flows for each of our reporting units, we relied on internally generated six-year forecasts and a three percent long-term assumed annual revenue growth rate for periods after the six-year forecast. Our forecasts were based on

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

our historical experience, then current backlog, expected market demand, and other industry information at the time the forecasts were prepared. For our Health and Education Consulting and Legal Consulting reporting units, we used a 15% discount rate while for our Accounting and Financial Consulting and Corporate Consulting reporting units, we used a 19% discount rate. We used a lower discount rate for our Health and Education Consulting and Legal Consulting reporting units due to their strength in the marketplace, as well as current and forecasted steady growth. In comparison, we used a higher discount rate for our Accounting and Financial Consulting and Corporate Consulting reporting units because these two reporting units have recently experienced soft demand and are undergoing restructuring activities. Additionally, the Accounting and Financial Consulting reporting unit may be more challenged by our financial restatement due to the type of services that this reporting unit provides.

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 applied to the operating data for our reporting units and adjusted for factors similar to the discounted cash flow analysis to arrive at an indication of value.

As described above, a goodwill impairment analysis requires significant judgments, estimates and assumptions. The results of this 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 decline 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 additional goodwill impairment charges.

In connection with our previous business acquisitions, additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met. These payments are not contingent upon the continuing employment of the selling shareholders. Such amounts are recorded as additional purchase consideration in the period they are earned with a corresponding adjustment to goodwill. During the fourth quarter of 2009, additional purchase consideration payable to the selling shareholders of previous acquisitions was accrued as the achievement of specific performance targets were met as of December 31, 2009. Additional purchase consideration totaling \$66.2 million was recorded as additional purchase price and an adjustment to goodwill in 2009.

As of December 31, 2009, we evaluated whether any events had occurred since the August 3, 2009 goodwill impairment test that may have indicated the carrying value of goodwill may have become impaired. As a result of our analysis, we concluded that no additional events had occurred that would have indicated any indications of impairment arose.

Intangible assets as of December 31, 2009 and 2008 consisted of the following:

**December 31, 2009**

**December 31, 2008**

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|                            | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> |
|----------------------------|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| Customer contracts         | \$ 5,400                         | \$ 5,400                            | \$ 5,400                         | \$ 4,550                            |
| Customer relationships     | 21,599                           | 12,128                              | 21,250                           | 8,423                               |
| Non-competition agreements | 11,336                           | 4,904                               | 11,273                           | 2,898                               |
| Tradenames                 | 3,431                            | 2,017                               | 3,400                            | 652                                 |
| Technology and software    | 8,383                            | 3,294                               | 8,275                            | 1,243                               |
| Total                      | \$ 50,149                        | \$ 27,743                           | \$ 49,598                        | \$ 17,766                           |

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Identifiable intangible assets with finite lives are amortized over their estimated useful lives. Customer contracts are amortized on a straight-line basis over relatively short lives due to the short-term nature of the services provided under these contracts. The majority of the customer relationships are amortized on an accelerated basis to correspond to the cash flows expected to be derived from the relationships. Non-competition agreements, tradenames, and technology and software are amortized on a straight-line basis.

Intangible assets amortization expense for the years ended December 31, 2009, 2008 and 2007 was \$10.2 million, \$14.3 million and \$14.3 million, respectively. Estimated intangible assets amortization expense is \$7.4 million for 2010, \$5.3 million for 2011, \$3.6 million for 2012, \$1.8 million for 2013 and \$1.1 million for 2014. Actual amortization expense could differ from these estimated amounts as a result of future acquisitions and other factors.

**7. Property and Equipment**

Depreciation expense for property and equipment was \$16.9 million, \$15.3 million and \$10.9 million for 2009, 2008 and 2007, respectively. Property and equipment at December 31, 2009 and 2008 are detailed below:

|   | <b>December 31,</b> |             |
|---|---------------------|-------------|
|   | <b>2009</b>         | <b>2008</b> |
| Computers, related equipment and software | \$ 44,641           | \$ 37,246   |
| Leasehold improvements                    | 30,336              | 26,856      |
| Furniture and fixtures                    | 16,794              | 15,143      |
| Assets under capital lease                | 1,338               | 1,417       |
| Assets under construction                 | 122                 | 131         |
| Property and equipment                    | 93,231              | 80,793      |
| Accumulated depreciation and amortization | (54,084)            | (37,277)    |
| Property and equipment, net               | \$ 39,147           | \$ 43,516   |

**8. Borrowings**

The Credit Agreement consists of a revolving credit facility ( Revolver ) and a term loan facility ( Term Loan ). Fees and interest on borrowings vary based on our total debt to earnings before interest, taxes, depreciation and amortization ( EBITDA ) ratio as set forth in the Credit Agreement. Interest is based on a spread over the London Interbank Offered Rate ( LIBOR ) or a spread over the base rate (which is the greater of

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the Federal Funds Rate plus 0.50% or the Prime Rate), as selected by us.

Prior to the September 30, 2009 Eighth Amendment to the Credit Agreement discussed below, we could borrow up to \$460.0 million under the Credit Agreement. In addition, the Credit Agreement had an accordion feature allowing for an additional amount of up to \$60.0 million to be borrowed upon approval from the lenders. Prior to entry into the Eighth Amendment to the Credit Agreement, the Credit Agreement consisted of a \$240.0 million Revolver and a \$220.0 million Term Loan, which was drawn in a single advance of \$220.0 million on July 8, 2008 to fund, in part, our acquisition of Stockamp.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

On September 30, 2009, we entered into the Eighth Amendment to the Credit Agreement which amended, among other items, the following terms:

1. Reduced the maximum amount of principal that may be borrowed under the Revolver by \$60 million from \$240 million to \$180 million, and eliminated the \$60 million accordion feature that was available under the Credit Agreement. The borrowing capacity continues to be reduced by any outstanding letters of credit.
2. Increased the LIBOR spread, base rate spread and letters of credit fee by 75 basis points in each case and increased the non-use fee from a range of 30 to 50 basis points to a flat 50 basis points.
3. Decreased the maximum leverage ratio from 3.00:1.00 to 2.75:1.00 effective December 31, 2010, lowered the minimum fixed charge coverage ratio from 2.50:1.00 to 2.35:1.00 effective September 30, 2009 and added a financial covenant requiring minimum net worth to be greater than zero.
4. Modified the definition of consolidated EBITDA by, among other items, allowing for the add back of non-cash goodwill impairment charges and other acquisition-related intangible asset impairment charges, non-cash restructuring charges, and non-cash compensation charges for the periods ending up to and including September 30, 2009. Beyond September 30, 2009, we are limited on the future add back of non-cash goodwill and other acquisition-related intangible asset impairment charges up to the lesser of \$30 million or 15% of net worth.

Also on September 30, 2009, we entered into the Security Agreement with Bank of America as Administrative Agent. The Security Agreement is required by the terms of the Eighth Amendment to the Credit Agreement in order to secure the obligations thereunder, and grants Bank of America, for the ratable benefit of the lenders under the Eighth Amendment to the Credit Agreement, a first-priority lien, subject to permitted liens, on substantially all of the personal property assets of the Company and the subsidiary grantors. Prior to our entry into the Security Agreement, the Revolver and Term Loan were secured by a pledge of 100% of the voting stock or other equity interests in our domestic subsidiaries and 65% of the voting stock or other equity interests in our foreign subsidiaries (collectively, the Equity Pledge). Following entry into the Security Agreement, the Revolver and Term Loan are secured by the Equity Pledge and by the first-priority lien, subject to permitted liens, on substantially all of our personal property assets and those of our subsidiary grantors.

Interest on the Revolver and Term Loan are based on a spread, ranging from 2.25% to 3.25%, as amended, over LIBOR or a spread, ranging from 1.25% to 2.25%, as amended, over the base rate (which is the greater of the Federal Funds Rate plus 0.50% or the Prime Rate), as selected by us. The Term Loan is subject to amortization of principal in fifteen consecutive quarterly installments that began on September 30, 2008, with the first fourteen installments being \$5.5 million each. The fifteenth and final installment will be the amount of the remaining outstanding principal balance of the Term Loan and will be payable on February 23, 2012, but can be repaid earlier. All outstanding borrowings under the Revolver will be due upon expiration of the Credit Agreement on February 23, 2012. The Credit Agreement includes quarterly financial covenants that require us to maintain certain fixed coverage and total debt to EBITDA ratios as well as minimum net worth. Under the Credit Agreement, dividends are restricted to an amount up to 50% of consolidated net income (adjusted for non-cash share-based compensation expense) for such fiscal year, plus 50% of net cash proceeds during such fiscal year with respect to any issuance of capital securities. In addition, certain acquisitions and similar transactions will need to be approved by the lenders.

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The borrowing capacity under the Credit Agreement is reduced by any outstanding letters of credit and payments under the Term Loan. At December 31, 2009, outstanding letters of credit totaled \$4.5 million and are used as security deposits for our office facilities. As of December 31, 2009, the borrowing capacity under

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

the Credit Agreement was \$143.5 million. Borrowings outstanding under the credit facility at December 31, 2009 totaled \$219.0 million, all of which are classified as long-term on our consolidated balance sheet as the principal under the Revolver is not due until 2012 and we intend to fund scheduled quarterly payments under the Term Loan with availability under the Revolver. Following entry into the Eighth Amendment to the Credit Agreement, we were in compliance with all of the applicable debt covenants at September 30, 2009. These borrowings carried a weighted-average interest rate of 4.0%, including the effect of the interest rate swap described below in note 12. Derivative Instrument and Hedging Activity. Borrowings outstanding at December 31, 2008 were \$280.0 million and carried a weighted-average interest rate of 3.1%. At both December 31, 2009 and 2008, we were in compliance with our financial debt covenants. In addition, based upon projected operating results, management believes it is probable that we will meet the financial covenants of the Credit Agreement discussed above, as amended, at future covenant measurement dates. Accordingly, pursuant to the provisions of FASB ASC Topic 470, Debt, all amounts not due within the next twelve months under the amended loan terms have been classified as long-term liabilities.

See note 3. Restatement of Previously-Issued Financial Statements for a discussion of certain matters related to the Credit Agreement and our borrowings thereunder in light of the restatement.

**9. Capital Structure**

**Preferred Stock**

We are authorized to issue up to 50,000,000 shares of preferred stock. Our certificate of incorporation authorizes our board of directors, without any further stockholder action or approval, to issue these shares in one or more classes or series, to establish from time to time the number of shares to be included in each class or series, and to fix the rights, preferences and privileges of the shares of each wholly unissued class or series and any of its qualifications, limitations or restrictions. As of December 31, 2009 and 2008, no such preferred stock has been approved or issued.

**Common Stock**

We are authorized to issue up to 500,000,000 shares of common stock, par value \$.01 per share. The holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Subject to the rights and preferences of the holders of any series of preferred stock that may at the time be outstanding, holders of common stock are entitled to such dividends as our board of directors may declare. In the event of any liquidation, dissolution or winding-up of our affairs, after payment of all of our debts and liabilities and subject to the rights and preferences of the holders of any series of preferred stock that may at the time be outstanding, holders of common stock will be entitled to receive the distribution of any of our remaining assets.





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Basic (loss) 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 and unvested restricted stock units. Diluted (loss) 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. The weighted average common stock equivalents for the year ended December 31, 2009 was approximately 412,000. Due to our loss position for the year ended December 31, 2009, these common stock equivalents were excluded from the calculation of diluted (loss) earnings per share as the shares would have had an anti-dilutive effect. (Loss) earnings per share under the basic and diluted computations are as follows:

|  | <b>Year ended December 31,</b> |                  |                  |
|--|--------------------------------|------------------|------------------|
|  | <b>2009</b>                    | <b>2008</b>      | <b>2007</b>      |
| (Loss) income from continuing operations               | \$ (14,489)                    | \$ 5,526         | \$ 21,291        |
| (Loss) income from discontinued operations, net of tax | (18,384)                       | 4,555            | 2,989            |
| <b>Net (loss) income</b>                               | <b>\$ (32,873)</b>             | <b>\$ 10,081</b> | <b>\$ 24,280</b> |
| Weighted average common shares outstanding basic       | 20,114                         | 18,257           | 16,944           |
| Weighted average common stock equivalents              |                                | 825              | 1,089            |
| Weighted average common shares outstanding diluted     | 20,114                         | 19,082           | 18,033           |
| <b>Net (loss) earnings per basic share:</b>            |                                |                  |                  |
| (Loss) income from continuing operations               | \$ (0.72)                      | \$ 0.30          | \$ 1.26          |
| (Loss) income from discontinued operations             | (0.91)                         | 0.25             | 0.17             |
| <b>Net (loss) income</b>                               | <b>\$ (1.63)</b>               | <b>\$ 0.55</b>   | <b>\$ 1.43</b>   |
| <b>Net (loss) earnings per diluted share:</b>          |                                |                  |                  |
| (Loss) income from continuing operations               | \$ (0.72)                      | \$ 0.29          | \$ 1.18          |
| (Loss) income from discontinued operations             | (0.91)                         | 0.24             | 0.17             |
| <b>Net (loss) income</b>                               | <b>\$ (1.63)</b>               | <b>\$ 0.53</b>   | <b>\$ 1.35</b>   |

There were approximately 1,205,400, 452,800 and 1,600 anti-dilutive securities for the years ended December 31, 2009, 2008 and 2007 respectively.

**11. Restructuring Charges**

During 2009, we incurred a \$3.1 million pre-tax restructuring charge, consisting primarily of severance payments related to workforce reductions to balance our employee base with current revenue expectations, market demand, and areas of focus. As of December 31, 2009, the restructuring reserve balance was \$0.4 million, the majority of which will be paid during the first quarter of 2010.

During 2008, we incurred a \$2.3 million pre-tax restructuring charge, consisting primarily of severance payments related to workforce reductions to balance our employee base with current revenue expectations, market demand, and areas of focus. These reductions in workforce included the elimination of the operational consulting group within the Corporate Consulting segment and a reduction in the number of consultants in various other practice groups.

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On March 20, 2009, we entered into an interest rate swap agreement for a notional amount of \$100.0 million effective on March 31, 2009 and ending on February 23, 2012. We entered into this derivative instrument to hedge against the risk of changes in future cash flows related to changes in interest rates on \$100.0 million of the total variable-rate borrowings outstanding described above in note 8. Borrowings. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the \$100.0 million notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 1.715%. This swap effectively converted \$100.0 million of our variable-rate borrowings to fixed-rate borrowings beginning on March 31, 2009 and through February 23, 2012.

FASB ASC Topic 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 Topic 815, we have designated this derivative instrument as a cash flow hedge. As such, changes in the fair value of the derivative instrument are recorded as a component of other comprehensive income (OCI) to the extent of effectiveness. The ineffective portion of the change in fair value of the derivative instrument is recognized in interest expense.

The table below sets forth additional information relating to this interest rate swap designated as a hedging instrument as of December 31, 2009 and for the year ended December 31, 2009.

| <b>Balance Sheet Location</b>               | <b>Fair Value<br/>(Derivative Liability)</b> | <b>Amount of Loss, Net of Tax, Recognized in OCI<br/>Year ended<br/>December 31, 2009</b> |
|---|--|---|
| Deferred compensation and other liabilities | \$ 664                                       | \$ (394)  |

We do not use derivative instruments for trading or other speculative purposes and we did not have any other derivative instruments or hedging activities as of December 31, 2009.

**13. Fair Value of Financial Instruments and Goodwill**

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.



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Certain of our assets and liabilities are measured at fair value. FASB ASC Topic 820, Fair Value Measurements and Disclosures (formerly SFAS No. 157), 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 Topic 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 derivative liability and goodwill measured at fair value as of December 31, 2009.

|                    | Quoted Prices in<br>Active<br>Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total      |
|--------------------|---|---|--|------------|
| <b>Asset:</b>      |   |   |  |            |
| Goodwill           | \$  | \$  | \$ 464,169   | \$ 464,169 |
| <b>Liability:</b>  |   |   |  |            |
| Interest rate swap | \$  | \$ 664  | \$   | \$ 664     |

In accordance with ASC Topic 350, goodwill with a carrying amount of \$570.2 million was written down to its implied fair value of \$464.2 million in 2009, resulting in accumulated impairment losses of \$106.0 million. See note 6. Goodwill and Intangible Assets for a discussion of the impairment charge.

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

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The tables below set forth the components of comprehensive income (loss) for the year ended December 31, 2009, 2008 and 2007.

|   | Year ended<br>December 31, 2009 |                      |                 | Year ended<br>December 31, 2008 |                      |                 | Year ended<br>December 31, 2007 |                      |                 |
|---|---------------------------------|----------------------|-----------------|---------------------------------|----------------------|-----------------|---------------------------------|----------------------|-----------------|
|   | Before<br>Taxes                 | (Expense)<br>Benefit | Net of<br>Taxes | Before<br>Taxes                 | (Expense)<br>Benefit | Net of<br>Taxes | Before<br>Taxes                 | (Expense)<br>Benefit | Net of<br>Taxes |
| Net income (loss)                               |                                 |                      | \$ (32,873)     |                                 |                      | \$ 10,081       |                                 |                      | \$ 24,280       |
| Other comprehensive income (loss):              |                                 |                      |                 |                                 |                      |                 |                                 |                      |                 |
| Foreign currency translation adjustment         | \$ (619)                        | \$ 169               | \$ (450)        | \$ (5)                          | \$                   | \$ (5)          | \$ 56                           | \$                   | \$ 56           |
| Unrealized loss on cash flow hedging instrument | (663)                           | 269                  | (394)           |                                 |                      |                 |                                 |                      |                 |
| Other comprehensive income (loss):              | \$ (1,282)                      | \$ 438               | \$ (844)        | \$ (5)                          | \$                   | \$ (5)          | \$ 56                           | \$                   | \$ 56           |
| Total comprehensive income (loss):              |                                 |                      | \$ (33,717)     |                                 |                      | \$ 10,076       |                                 |                      | \$ 24,336       |

**15. Other Gains**

During the year ended December 31, 2009, we recognized gains totaling \$4.8 million relating to the release of certain of our employees from their non-solicitation agreements with the Company and the settlement of certain contractual obligations.

**16. Employee Benefit and Deferred Compensation Plans**

We sponsor a qualified defined contribution 401(k) plan covering substantially all of our employees. Under the plan, employees are entitled to make pre-tax contributions. We match an amount equal to the employees' contributions up to 6% of the employees' salaries. Our matching contributions for the years ended December 31, 2009, 2008, and 2007 were \$12.4 million, \$10.4 million, and \$8.1 million, respectively.

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We have a non-qualified deferred compensation plan (the Plan ) that is administered by our board of directors or a committee designated by the board of directors. Under the Plan, members of the board of directors and a select group of our employees may elect to defer the receipt of their director retainers and meeting fees or base salary and bonus, as applicable. Additionally, we may credit amounts to a participant s deferred compensation account in accordance with employment or other agreements entered into between us and the participant. At our sole discretion, we may, but are not required to, credit any additional amount we desire to any participant s deferred compensation account. Amounts credited are subject to vesting schedules set forth in the Plan, employment agreement or any other agreement entered into between us and the participant. The deferred compensation liability at December 31, 2009 and 2008 was \$4.0 million and \$3.9 million, respectively.

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**Table of Contents****HURON CONSULTING GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Tabular amounts in thousands, except per share amounts)****17. Equity Incentive Plans**

In connection with our initial public offering, we adopted the 2004 Omnibus Stock Plan (the Omnibus Plan), which replaced our then-existing equity plans for grants of share-based awards. 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, our common stock. Under the Omnibus Plan, as originally adopted, a total of 2,141,000 shares of common stock were reserved for issuance to eligible employees, executive officers, independent contractors and outside directors. The Plan was amended effective as of May 2, 2006 to increase the number of shares of common stock available for issuance by 2,100,000. As of December 31, 2009, 870,073 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 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 our stock options and restricted stock vest annually, pro-rata over 4 years. All stock options have a ten-year contractual term.

No options were granted during the years ended December 31, 2009, 2008 or 2007. Stock option activity for the year ended December 31, 2009 was as follows:

|                                  | Number<br>of<br>Options<br>(in thousands) | Weighted<br>Average<br>Exercise<br>Price<br>(in dollars) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(in millions) |
|----------------------------------|---|--|---|--|
| Outstanding at January 1, 2009   | 298                                       | \$ 3.68  |   |  |
| Granted                          |   |  |   |  |
| Exercised                        | (96)                                      | \$ 1.69  |   |  |
| Forfeited or expired             | (2)                                       | \$ 1.50  |   |  |
| Outstanding at December 31, 2009 | 200                                       | \$ 4.59  | 3.8   | \$ 3.7   |
| Exercisable at December 31, 2009 | 200                                       | \$ 4.59  | 3.8   | \$ 3.7   |

The aggregate intrinsic value of options exercised during 2009, 2008 and 2007 was \$3.5 million, \$13.7 million and \$14.8 million, respectively.

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The grant date fair values of our restricted stock awards are measured pursuant to FASB ASC Topic 718. Restricted stock activity for the year ended December 31, 2009 was as follows:

|                                       | <b>Number of<br/>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair Value<br/>(in dollars)</b> |
|---------------------------------------|--|--|
| Restricted stock at January 1, 2009   | 1,562  | \$ 49.64   |
| Granted                               | 1,141  | \$ 39.70   |
| Vested                                | (580)  | \$ 43.49   |
| Forfeited                             | (667)  | \$ 51.61   |
| Restricted stock at December 31, 2009 | 1,456  | \$ 43.34   |

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

The aggregate fair value of restricted stock that vested during the years ended December 31, 2009, 2008 and 2007 was \$26.3 million, \$35.3 million and \$33.4 million, respectively.

Total share-based compensation cost recognized for the years ended December 31, 2009, 2008 and 2007 was \$19.5 million, \$26.5 million and \$19.7 million, respectively, with related income tax benefits of \$8.0 million, \$10.9 million and \$8.1 million, respectively. As of December 31, 2009, there was \$48.3 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 2.7 years.

**18. Income Taxes**

The income tax expense for continuing operations for the years ended December 31, 2009, 2008 and 2007 consists of the following:

|  | Year ended December 31, |           |           |
|--|-------------------------|-----------|-----------|
|  | 2009                    | 2008      | 2007      |
| Current:                                     |                         |           |           |
| Federal                                      | \$ 13,765               | \$ 12,140 | \$ 8,953  |
| State  | 2,848                   | 2,654     | 3,301     |
| Foreign                                      | 81                      | (336)     | 195       |
| Total current                                | 16,694                  | 14,458    | 12,449    |
| Deferred:                                    |                         |           |           |
| Federal                                      | (12,516)                | 10,327    | 12,415    |
| State  | (2,565)                 | 2,965     | 3,575     |
| Foreign                                      | (84)                    |           |           |
| Total deferred                               | (15,165)                | 13,292    | 15,990    |
| Income tax expense for continuing operations | \$ 1,529                | \$ 27,750 | \$ 28,439 |

A reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations is as follows.

Year ended December 31,

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|   | 2009    | 2008  | 2007  |
|---|---------|-------|-------|
| Percent of pretax (loss) income from continuing operations: |         |       |       |
| At U.S. statutory tax rate                                  | (35.0)% | 35.0% | 35.0% |
| Non-cash compensation (1)                                   | 20.2    | 27.9  | 10.6  |
| State income taxes  | 4.9     | 9.9   | 8.5   |
| Meals and entertainment                                     | 9.6     | 3.9   | 2.5   |
| Valuation allowance   | (2.1)   | 0.8   |       |
| Realized investment (gains) losses                          | (2.8)   | 1.8   |       |
| Disallowed executive compensation                           | 0.9     | 1.8   | 0.4   |
| Foreign source income                                       | 6.4     | (0.5) | (0.2) |
| Goodwill  | 8.7     |       |       |
| Other non-deductible items                                  | 1.0     | 2.8   | 0.4   |
| Effective income tax expense rate for continuing operations | 11.8%   | 83.4% | 57.2% |

- (1) Consists of non-cash compensation expense representing Shareholder Payments and Employee Payments as described in note 3. Restatement of Previously-Issued Financial Statements.

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

The effective tax rate for discontinued operations in 2009 was 45% based on a tax benefit of \$15.2 million. This benefit in 2009 was primarily attributable to losses from discontinued operations, certain foreign investment losses and the release of valuation allowances for foreign operations recorded in prior years. The effective tax rates for discontinued operations in 2008 and 2007 were 60% and 63%, respectively. The higher effective tax rates for discontinued operations in 2008 and 2007 were primarily attributable to higher non-deductible non-cash compensation expense and valuation allowances.

Deferred tax assets for continuing operations at December 31, 2009 and 2008 consist of the following:

|  | <b>December 31,</b> |                  |
|--|---------------------|------------------|
|  | <b>2009</b>         | <b>2008</b>      |
| Deferred tax assets:                                     |                     |                  |
| Goodwill   | \$ 25,507           | \$               |
| Share-based compensation                                 | 7,339               | 9,246            |
| Accrued payroll and other liabilities                    | 7,849               | 8,441            |
| Deferred lease incentives                                | 4,172               | 4,333            |
| Revenue recognition                                      | 4,450               | 4,212            |
| Net operating loss and foreign tax credit carryforwards  | 1,311               | 270              |
| Other  | 1,245               |                  |
| <b>Total deferred tax assets</b>                         | <b>51,873</b>       | <b>26,502</b>    |
| Less valuation allowance                                 |                     | (270)            |
| <b>Net deferred tax assets</b>                           | <b>51,873</b>       | <b>26,232</b>    |
| Deferred tax liabilities:                                |                     |                  |
| Prepaid expenses   | (2,443)             | (3,851)          |
| Property and equipment                                   | (2,439)             | (2,619)          |
| Amortization of intangibles                              | (9,355)             | (1,924)          |
| Other  |                     | (79)             |
| <b>Total deferred tax liabilities</b>                    | <b>(14,237)</b>     | <b>(8,473)</b>   |
| <b>Net deferred tax asset from continuing operations</b> | <b>\$ 37,636</b>    | <b>\$ 17,759</b> |

As of December 31, 2009 and 2008, we had a valuation allowance of zero and \$0.3 million, respectively, primarily due to uncertainties relating to the ability to utilize deferred tax assets recorded for foreign tax credits. The Company has domestic foreign tax credits of \$0.9 million which will expire in 2018. In addition, the Company has net foreign operating losses of \$2.3 million which carry forward indefinitely.

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In July 2006, the FASB issued guidance regarding accounting for uncertainty in income taxes (formerly Interpretation No. 48, Accounting for Uncertainty in Income Taxes ), which became effective for us on January 1, 2007. The guidance, located within FASB ASC Topic 740, Income Taxes , addresses the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740, we must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

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

A reconciliation of our beginning and ending amount of unrecognized tax benefits is as follows:

|  |                 |
|--|-----------------|
| Balance at January 1, 2007                                   | \$ 68           |
| Additions based on tax positions related to the current year | 81              |
| Additions for tax positions of prior years                   | 37              |
| Additions related to acquired companies                      | 525             |
| <b>Balance at December 31, 2007</b>                          | <b>\$ 711</b>   |
| Additions based on tax positions related to the current year | 328             |
| Additions for tax positions of prior years                   | 129             |
| <b>Balance at December 31, 2008</b>                          | <b>\$ 1,168</b> |
| Additions based on tax positions related to the current year | 623             |
| Decrease based on settlements with taxing authorities        | (177)           |
| <b>Balance at December 31, 2009</b>                          | <b>\$ 1,614</b> |

Of the \$1.6 million of unrecognized tax benefits at December 31, 2009, \$1.1 million would affect the effective tax rate if recognized. We do not expect that changes in the liability for unrecognized tax benefits during the next 12 months will have a significant impact on our financial position or results of operations.

As of December 31, 2009, \$0.2 million was recorded for the potential payment of penalties and an immaterial amount was recorded for the potential payment of interest. As of December 31, 2008, an immaterial amount was accrued for the potential payment of interest and penalties. Accrued interest and penalties are recorded as a component of provision for income taxes on our consolidated statement of operations.

We file income tax returns with federal, state, local and foreign jurisdictions. The 2007 Federal tax return was examined and closed in 2009 and no material adjustments were identified toward any of our tax positions. Our 2005 Federal tax return was examined and closed in 2008 and no adjustments were identified. Our 2006 and 2008 Federal tax returns are subject to future examination. The Company is currently under audit by the State of New York for 2006 and 2007 tax returns. For all other states, 2004 through 2008 are subject to future examinations. All of our foreign income tax filings are subject to future examinations.

**19. Commitments, Contingencies and Guarantees**

**Lease Commitments**

We lease office space and certain equipment and software under noncancelable operating and capital lease arrangements expiring on various dates through 2018, with various renewal options. Our principal executive offices located in Chicago, Illinois are under leases expiring through September 2014. We have two five-year renewal options that will allow us to continue to occupy the majority of this office space until September 2024. We also have a core office located in New York City, New York under a lease that expires in July 2016, with one five-year renewal option. Office facilities under operating leases include fixed or minimum payments plus, in some cases, scheduled base rent increases over the term of the lease. Certain leases provide for monthly payments of real estate taxes, insurance and other operating expense applicable to the property. Some of the leases contain provisions whereby the future rental payments may be adjusted for increases in operating expense above the specified amount. Rental expense, including operating costs and

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

taxes, for the years ended December 31, 2009, 2008 and 2007 was \$17.4 million, \$15.8 million and \$12.2 million, respectively. Future minimum rental commitments under non-cancelable leases and sublease income as of December 31, 2009, are as follows:

|              | <b>Capital<br/>Lease<br/>Obligations</b> | <b>Operating<br/>Lease<br/>Obligations</b> | <b>Sublease<br/>Income</b> |
|--------------|--|--|----------------------------|
| 2010         | \$ 289                                   | \$ 18,377                                  | \$ (1,047)                 |
| 2011         | 68                                       | 15,229                                     |                            |
| 2012         | 4  | 13,855                                     |                            |
| 2013         |  | 11,632                                     |                            |
| 2014         |  | 9,366                                      |                            |
| Thereafter   |  | 11,685                                     |                            |
| <b>Total</b> | <b>\$ 361</b>                            | <b>\$ 80,144</b>                           | <b>\$ (1,047)</b>          |

**Litigation**

On July 3, 2007, The Official Committee (the Committee) of Unsecured Creditors of Saint Vincents Catholic Medical Centers of New York d/b/a Saint Vincent Catholic Medical Centers ( St. Vincents ), et al. filed suit against Huron Consulting Group Inc., certain of our subsidiaries, including Speltz & Weis LLC, and two of our former managing directors, David E. Speltz ( Speltz ) and Timothy C. Weis ( Weis ), in the Supreme Court of the State of New York, County of New York. On November 26, 2007, Gray & Associates, LLC ( Gray ), in its capacity as trustee on behalf of the SVCMC Litigation Trust, was substituted as plaintiff in the place of the Committee and on February 19, 2008, Gray filed an amended complaint in the action. Beginning in 2004, St. Vincents retained Speltz & Weis LLC to provide management services to St. Vincents, and its two principals, Speltz and Weis, were made the interim chief executive officer and chief financial officer, respectively, of St. Vincents. In May of 2005, we acquired Speltz & Weis LLC. On July 5, 2005, St. Vincents filed for bankruptcy in the United States Bankruptcy Court for the Southern District of New York ( Bankruptcy Court ). On December 14, 2005, the Bankruptcy Court approved the retention of Speltz & Weis LLC and us in various capacities, including interim management, revenue cycle management and strategic sourcing services. The amended complaint filed by Gray alleges, among other things, breach of fiduciary duties, breach of the New York Not-For-Profit Corporation Law, malpractice, breach of contract, tortious interference with contract, aiding and abetting breaches of fiduciary duties, certain fraudulent transfers and fraudulent conveyances, breach of the implied duty of good faith and fair dealing, fraud, aiding and abetting fraud, negligent misrepresentation, and civil conspiracy, and seeks at least \$200 million in damages, disgorgement of fees, return of funds or other property transferred to Speltz & Weis LLC, attorneys fees, and unspecified punitive and other damages. We believe that the claims are without merit and intend to vigorously defend ourselves in this matter. The suit is in the pre-trial stage and no trial date has been set.

The SEC has commenced an investigation with respect to the restatement and an investigation into the allocation of time within a certain practice group. We also conducted a separate inquiry, in response to the initial inquiry from the SEC, into the allocation of time within a certain practice group. This matter had no impact on billings to our clients, but could have impacted the timing of when revenue was recognized. Based on our internal inquiry, which is complete, we have concluded that an adjustment to our historical financial statements is not required with

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respect to this matter. The SEC investigations with respect to the restatement and the allocation of time within a certain practice group are ongoing. We are cooperating fully with the SEC in its investigations. As often happens in these circumstances, the USAO for the Northern District of Illinois has

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**HURON CONSULTING GROUP INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

contacted our counsel. The USAO made a telephonic request for copies of certain documents that we previously provided to the SEC, which we have voluntarily provided to the USAO.

In addition, the following purported shareholder class action complaints have been filed in connection with our restatement in the United States District Court for the Northern District of Illinois: (1) a complaint in the matter of Jason Hughes v. Huron Consulting Group Inc., Gary E. Holdren and Gary L. Burge, filed on August 4, 2009; (2) a complaint in the matter of Dorothy DeAngelis v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (3) a complaint in the matter of Noel M. Parsons v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (4) a complaint in the matter of Adam Liebman v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 5, 2009; (5) a complaint in the matter of Gerald Tobin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and PricewaterhouseCoopers LLP, filed on August 7, 2009, (6) a complaint in the matter of Gary Austin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 7, 2009 and (7) a complaint in the matter of Thomas Fisher v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on September 3, 2009. On October 6, 2009, Plaintiff Thomas Fisher voluntarily dismissed his complaint. On November 16, 2009, the remaining suits were consolidated and the Public School Teachers Pension & Retirement Fund of Chicago, the Arkansas Public Employees Retirement System, the City of Boston Retirement Board, the Cambridge Retirement System and the Bristol County Retirement System were appointed Lead Plaintiffs. Lead Plaintiffs filed a consolidated complaint on January 29, 2010. The consolidated complaint asserts claims under Section 10(b) of the Exchange Act and SEC Rule 10b-5 promulgated thereunder against Huron Consulting Group, Inc., Gary Holdren and Gary Burge and claims under Section 20(a) of the Exchange Act against Gary Holdren, Gary Burge and Wayne Lipski. The consolidated complaint contends that the Company and the individual defendants issued false and misleading statements regarding the Company's financial results and compliance with GAAP. Lead Plaintiffs request that the action be declared a class action, and seek unspecified damages, equitable and injunctive relief, and reimbursement for fees and expenses incurred in connection with the action, including attorneys' fees. We intend to defend the action vigorously.

The Company also has been named as a nominal defendant in two state derivative suits filed in connection with the Company's restatement, since consolidated in the Circuit Court of Cook County, Illinois, Chancery Division on September 21, 2009: (1) a complaint in the matter of Curtis Peters, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge, Wayne Lipski, each of the members of the Board of Directors and PricewaterhouseCoopers LLP, filed on August 28, 2009 (the Peters suit) and (2) a complaint in the matter of Brian Hacias, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 28, 2009 (the Hacias suit). The consolidated cases are captioned In Re Huron Consulting Group, Inc. Shareholder Derivative Litigation. A consolidated complaint is forthcoming. The Peters suit was filed in the Circuit Court of Cook County, Illinois, Law Division, and alleges claims for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and waste of corporate assets. The Peters suit also alleges claims for professional negligence against PricewaterhouseCoopers LLP, the Company's independent auditors. The Hacias suit was filed in the Circuit Court of Cook County, Illinois, Chancery Division, and alleges claims for breach of fiduciary duty, gross negligence, abuse of control, gross mismanagement, breach of contract, waste of corporate assets, contribution and indemnification and insider trading. Both plaintiffs seek to recoup for the Company unspecified damages allegedly sustained by the Company resulting from the restatement and related matters, disgorgement and reimbursement for fees and expenses incurred in connection with the suits, including attorneys' fees.

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

The Company also has also been named as a nominal defendant in three Federal derivative suits filed in connection with the Company's restatement, since consolidated in the United States District Court for the Northern District of Illinois on November 23, 2009: (1) a complaint in the matter of Oakland County Employees' Retirement System, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge, Wayne Lipski and each of the members of the Board of Directors, filed on October 7, 2009 (the "Oakland suit"); (2) a complaint in the matter of Philip R. Wilmore, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge, Wayne Lipski, David M. Shade, and each of the members of the Board of Directors, filed on October 12, 2009 (the "Wilmore suit"); and (3) a complaint in the matter of Lawrence J. Goelz, derivatively on behalf of Huron Consulting Group Inc. v. Gary E. Holdren, Gary L. Burge, Wayne Lipski, David M. Shade, and each of the members of the Board of Directors, filed on October 12, 2009 (the "Goelz suit"). Oakland County Employees' Retirement System, Philip R. Wilmore and Lawrence J. Goelz have been named Lead Plaintiffs. Lead Plaintiffs filed a consolidated complaint on January 15, 2010. The consolidated complaint asserts claims under Section 14(a) of the Exchange Act and for breach of fiduciary duty, waste of corporate assets and unjust enrichment. Lead Plaintiffs seek to recoup for the Company unspecified damages allegedly sustained by the Company resulting from the restatement and related matters, restitution from all defendants and disgorgement of all profits, benefits or other compensation obtained by the defendants and reimbursement for fees and expenses incurred in connection with the suit, including attorneys' fees. On December 21, 2009, Huron filed a motion to stay the Federal derivative suits. Plaintiffs filed their opposition to the motion to stay on January 29, 2010. The Company filed its reply in further support of the motion to stay on February 16, 2010.

Given the uncertain nature of the SEC investigations with respect to the restatement and the allocation of time within a certain practice group, the USAO's request for certain documents and the purported private shareholder class action lawsuit and derivative lawsuits in respect of the restatement (collectively, the "restatement matters"), and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the restatement matters, we are unable to predict the ultimate outcome of the restatement matters, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the restatement matters. Any such liability could be material.

On December 9, 2009, plaintiff, Associates Against Outlier Fraud, filed a First Amended *qui tam* complaint against Huron Consulting Group, Inc., and others under the federal and New York state False Claims Act ("FCA") in the United States District Court for the Southern District of New York. The federal and state FCA authorize private individuals (known as "relators") to sue on behalf of the government (known as *qui tam* actions) alleging that false or fraudulent claims were knowingly submitted to the government. Once a *qui tam* action is filed, the government may elect to intervene in the action. If the government declines to intervene, the relator may proceed with the action. Under the federal and state FCA, the government may recover treble damages and civil penalties (civil penalties of up to \$11,000 per violation under the federal FCA and \$12,000 per violation under the state FCA). The relator's amended complaint alleges that Huron and others caused St. Vincent Catholic Medical Center to receive more than \$50 million in inflated outlier payments under the Medicare and Medicaid programs in violation of the federal and state FCA and also sues to recover an unspecified amount of civil penalties. On January 6, 2010, the United States declined to intervene in the lawsuit. (The New York state government has not participated.) On February 2, 2010, Huron filed a motion to dismiss the relator's federal and state claims. Huron believes the lawsuit lacks merit and intends to contest the lawsuit vigorously in the event its motion to dismiss is not granted.

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 annual report on Form 10-K, we are not a party to or threatened with any other



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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**

Guarantees in the form of letters of credit totaling \$4.5 million and \$5.7 million were outstanding at December 31, 2009 and 2008, respectively, to support certain office lease obligations.

In connection with certain business acquisitions, we are required to pay additional purchase consideration to the sellers if specific performance targets and conditions are met over a number of years as specified in the related purchase agreements. These amounts are calculated and payable at the end of each year based on full year financial results. Additional purchase consideration earned by certain sellers totaled \$66.2 million, \$45.4 million and \$32.4 million for the years ended December 31, 2009, 2008 and 2007, respectively. There is no limitation to the maximum amount of additional purchase consideration and future amounts are not determinable at this time, but the aggregate amount that potentially may be paid could be significant.

To the extent permitted by law, our by-laws and articles of incorporation require that we indemnify our officers and directors against judgments, fines and amounts paid in settlement, including attorney's 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.

**20. Segment Information**

Segments are defined by FASB ASC Topic 280 Segment Reporting as components of a company in which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker manages the business under four operating segments: Health and Education Consulting, Accounting and Financial Consulting, Legal Consulting, and Corporate Consulting.

**Health and Education Consulting.** This segment provides consulting services to hospitals, health systems, physicians, managed care organizations, academic medical centers, colleges, universities, and pharmaceutical and medical device manufacturers. This segment's professionals develop and implement solutions to help clients address financial management, strategy, operational and organizational effectiveness, research administration, and regulatory compliance. This segment also provides consulting services related to hospital or

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healthcare organization performance improvement, revenue cycle improvement, turnarounds, merger or affiliation strategies, labor productivity, non-labor cost management, information technology, patient flow improvement, physician practice management, interim management, clinical quality and medical management, and governance and board development.

**Accounting and Financial Consulting.** This segment assists corporations with complex accounting and financial reporting matters, financial analysis in business disputes, international arbitration and litigation, as well as valuation analysis related to business acquisitions. In addition, the Accounting and Financial Consulting segment also provides experienced project leadership and consultants with a variety of financial and accounting credentials and prior corporate experience on an as-needed basis to assist clients with finance and accounting projects. This segment is comprised of certified public accountants, economists,

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

certified fraud examiners, chartered financial analysts and valuation experts who serve attorneys and corporations as expert witnesses and consultants in connection with business disputes, as well as in regulatory or internal investigations.

**Legal Consulting.** This segment provides guidance and business services to address the challenges that confront today's legal organizations. These services add value to corporate law departments, law firms, and government agencies by helping to reduce legal spending, enhance client service delivery, and increase operational effectiveness. This segment provides measurable results in the areas of digital evidence and discovery services, document review, law firm management services, records management, and strategic and operational improvements. Included in this segment's offerings is V3locity®, a per gigabyte fixed price e-discovery service providing data and document processing, hosting, review and production.

**Corporate Consulting.** This segment leads clients through various stages of transformation that result in measurable and sustainable performance improvement. This segment works with clients to solve complex business problems and implements strategies and solutions to effectively address and manage stagnant or declining stock price, acquisitions and divestitures, process inefficiency, third party contracting difficulties, lack of or misaligned performance measurements, margin and cost pressures, performance issues, bank defaults, covenant violations, and liquidity issues.

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, restatement-related expenses, goodwill impairment as well as costs related to overall corporate management.

From time to time, we will reorganize our internal organizational structure to better align our service offerings. During the third quarter of 2009, we moved our government contract consulting practice from our Health and Education Consulting segment to our Accounting and Financial Consulting segment. Previously reported segment information has been restated to reflect this.



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

(Tabular amounts in thousands, except per share amounts)

The table below sets forth information about our operating segments along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements. We do not present financial information by geographic area as revenues, as well as information relating to long-lived assets, attributable to international operations are immaterial.

|  | Year ended December 31, |                     |            |
|--|-------------------------|---------------------|------------|
|  | 2009                    | 2008                | 2007       |
| <b>Health and Education Consulting:</b>                                    |                         |                     |            |
| Revenues   | \$ 373,881              | \$ 269,370          | \$ 177,722 |
| Operating income   | \$ 141,295              | \$ 90,886           | \$ 51,685  |
| Segment operating income as a percent of segment revenues                  | 37.8%                   | 33.7%               | 29.1%      |
| <b>Accounting and Financial Consulting:</b>                                |                         |                     |            |
| Revenues   | \$ 99,352               | \$ 137,732          | \$ 159,222 |
| Operating income   | \$ 16,285               | \$ 22,512           | \$ 60,329  |
| Segment operating income as a percent of segment revenues                  | 16.4%                   | 16.3%               | 37.9%      |
| <b>Legal Consulting:</b>   |                         |                     |            |
| Revenues   | \$ 114,824              | \$ 121,413          | \$ 89,849  |
| Operating income   | \$ 22,035               | \$ 37,780           | \$ 28,293  |
| Segment operating income as a percent of segment revenues                  | 19.2%                   | 31.1%               | 31.5%      |
| <b>Corporate Consulting:</b>   |                         |                     |            |
| Revenues   | \$ 40,643               | \$ 45,260           | \$ 48,977  |
| Operating income   | \$ 11,667               | \$ 6,044            | \$ 7,956   |
| Segment operating income as a percent of segment revenues                  | 28.7%                   | 13.4%               | 16.2%      |
| <b>Total Company:</b>  |                         |                     |            |
| Revenues   | \$ 628,700              | \$ 573,775          | \$ 475,770 |
| Reimbursable expenses  | 50,840                  | 52,303              | 39,382     |
| Total revenues and reimbursable expenses                                   | \$ 679,540              | \$ 626,078          | \$ 515,152 |
| <b>Statement of operations reconciliation:</b>                             |                         |                     |            |
| Segment operating income   | \$ 191,282              | \$ 157,222          | \$ 148,263 |
| Charges not allocated at the segment level:                                |                         |                     |            |
| Other selling, general and administrative expenses                         | 104,643                 | 84,461              | 73,098     |
| Depreciation and amortization  | 22,192                  | 22,922              | 17,191     |
| Impairment charge on goodwill  | 67,034                  |                     |            |
| Other expense  | 10,373                  | 16,563              | 8,244      |
| (Loss) income from continuing operations before provision for income taxes | \$ (12,960)             | \$ 33,276           | \$ 49,730  |
|  | <b>December 31,</b>     | <b>December 31,</b> |            |
|  | <b>2009</b>             | <b>2008</b>         |            |
| <b>Segment assets:</b>   |                         |                     |            |
| Health and Education Consulting  | \$ 68,445               | \$ 49,135           |            |

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|                                     |            |            |
|-------------------------------------|------------|------------|
| Accounting and Financial Consulting | 20,847     | 24,885     |
| Legal Consulting                    | 30,052     | 38,124     |
| Corporate Consulting                | 8,795      | 10,359     |
| Unallocated assets (1)              | 621,766    | 643,396    |
| Discontinued Operations             | 4,310      | 13,698     |
| Total assets                        | \$ 754,215 | \$ 779,597 |

- (1) Goodwill and intangible assets are included in unallocated assets, as in assessing segment performance or in allocating resources, management does not evaluate these items at the segment level.

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

For the years ended December 31, 2009, 2008 and 2007, substantially all of our revenues and long-lived assets were attributed to or located in the United States.

No single client generated greater than 10% of our consolidated revenues during the years ended December 31, 2009 and 2008. At both December 31, 2009 and 2008, no single client's total receivables and unbilled services balance represented greater than 10% of our total receivables and unbilled services balance.

During the year ended December 31, 2007, one client generated \$48.9 million, or 10.3%, of our consolidated revenues from continuing operations. Of the \$48.9 million, \$40.3 million was generated by the Accounting and Financial Consulting segment and \$8.6 million was generated by the Legal Consulting segment.

**21. Valuation and Qualifying Accounts**

The following table summarizes the activity of the allowances for doubtful accounts and unbilled services and the valuation allowance for deferred tax assets:

|  | Beginning<br>balance | Additions (1) | Deductions | Ending<br>balance |
|--|----------------------|---------------|------------|-------------------|
| <b>Year ended December 31, 2007:</b>                   |                      |               |            |                   |
| Allowances for doubtful accounts and unbilled services | \$ 4,513             | 29,281        | 21,071     | \$ 12,723         |
| Valuation allowance for deferred tax assets            | \$                   |               |            | \$                |
| <b>Year ended December 31, 2008:</b>                   |                      |               |            |                   |
| Allowances for doubtful accounts and unbilled services | \$ 12,723            | 36,313        | 30,854     | \$ 18,182         |
| Valuation allowance for deferred tax assets            | \$                   | 270           |            | \$ 270            |
| <b>Year ended December 31, 2009:</b>                   |                      |               |            |                   |
| Allowances for doubtful accounts and unbilled services | \$ 18,182            | 42,234        | 40,225     | \$ 20,191         |
| Valuation allowance for deferred tax assets            | \$ 270               |               | 270        | \$                |

- (1) Additions to allowances for doubtful accounts and unbilled services are charged to revenues to the extent the provision relates to fee adjustments and other discretionary pricing adjustments. To the extent the provision relates to a client's inability to make required payments on accounts receivables, the provision is charged to operating expenses. Additions also include allowances acquired in business acquisitions.

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

(Tabular amounts in thousands, except per share amounts)

**22. Selected Quarterly Financial Data (unaudited)**

| 2009  | Quarter Ended |            |            |            |
|---|---------------|------------|------------|------------|
|   | Mar. 31       | Jun. 30    | Sep. 30    | Dec. 31    |
| Revenues  | \$ 151,130    | \$ 154,446 | \$ 166,011 | \$ 157,113 |
| Reimbursable expenses   | 13,412        | 12,111     | 13,838     | 11,479     |
| Total revenues and reimbursable expenses                        | 162,542       | 166,557    | 179,849    | 168,592    |
| Gross profit  | 53,164        | 54,309     | 60,505     | 60,150     |
| Operating income (loss)   | 14,299        | 17,916     | (55,875)   | 21,073     |
| Net income (loss) from continuing operations                    | 5,614         | 7,845      | (40,318)   | 12,370     |
| Income (loss) from discontinued operations                      | 1,462         | 1,801      | (23,676)   | 2,029      |
| Net income (loss)   | 7,076         | 9,646      | (63,994)   | 14,399     |
| Basic earnings per share:                                       |               |            |            |            |
| Income (loss) from continuing operations                        | \$ 0.29       | \$ 0.40    | \$ (1.99)  | \$ 0.61    |
| Income (loss) from discontinued operations                      | 0.07          | 0.09       | (1.17)     | 0.10       |
| Net income (loss)   | 0.36          | 0.49       | (3.16)     | 0.71       |
| Diluted earnings per share:                                     |               |            |            |            |
| Income (loss) from continuing operations                        | \$ 0.28       | \$ 0.38    | \$ (1.99)  | \$ 0.61    |
| Income (loss) from discontinued operations                      | 0.07          | 0.09       | (1.17)     | 0.10       |
| Net income (loss)   | 0.35          | 0.47       | (3.16)     | 0.71       |
| Weighted average shares used in calculating earnings per share: |               |            |            |            |
| Basic   | 19,528        | 19,752     | 20,239     | 20,271     |
| Diluted   | 20,252        | 20,405     | 20,239     | 20,419     |

| 2008  | Quarter Ended |            |            |            |
|---|---------------|------------|------------|------------|
|   | Mar. 31       | Jun. 30    | Sep. 30    | Dec. 31    |
| Revenues  | \$ 129,740    | \$ 134,530 | \$ 157,747 | \$ 151,758 |
| Reimbursable expenses   | 10,663        | 11,600     | 15,456     | 14,584     |
| Total revenues and reimbursable expenses                        | 140,403       | 146,130    | 173,203    | 166,342    |
| Gross profit  | 47,161        | 41,506     | 54,687     | 57,844     |
| Operating income  | 13,152        | 5,893      | 12,858     | 17,936     |
| Net income from continuing operations                           | 2,079         | 893        | 867        | 1,687      |
| Income from discontinued operations                             | 970           | 242        | 1,571      | 1,772      |
| Net income  | 3,049         | 1,135      | 2,438      | 3,459      |
| Basic earnings per share:                                       |               |            |            |            |
| Income from continuing operations                               | \$ 0.12       | \$ 0.05    | \$ 0.05    | \$ 0.09    |
| Income from discontinued operations                             | 0.06          | 0.01       | 0.08       | 0.09       |
| Net income  | 0.18          | 0.06       | 0.13       | 0.18       |
| Diluted earnings per share:                                     |               |            |            |            |
| Income from continuing operations                               | \$ 0.12       | \$ 0.05    | \$ 0.04    | \$ 0.08    |
| Income from discontinued operations                             | 0.05          | 0.01       | 0.08       | 0.09       |
| Net income  | 0.17          | 0.06       | 0.12       | 0.17       |
| Weighted average shares used in calculating earnings per share: |               |            |            |            |
| Basic   | 17,372        | 17,558     | 18,901     | 19,180     |
| Diluted   | 18,215        | 18,178     | 19,845     | 20,074     |

