

Huron Consulting Group Inc.
Form 10-Q
July 30, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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
(IRS Employer

Identification Number)

550 West Van Buren Street

Chicago, Illinois

60607

(Address of principal executive offices)

(Zip Code)

(312) 583-8700

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

As of July 18, 2012, 22,975,971 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

Huron Consulting Group Inc.

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PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HURON CONSULTING GROUP INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,772	\$ 5,080
Receivables from clients, net	86,066	107,820
Unbilled services, net	48,568	49,056
Income tax receivable	7,419	19,501
Deferred income taxes, net	10,697	12,531
Prepaid expenses and other current assets	15,610	14,191
Current assets of discontinued operations	435	3,345
Total current assets	174,567	211,524
Property and equipment, net	33,545	31,176
Other non-current assets	13,191	14,892
Intangible assets, net	14,173	16,867
Goodwill	512,830	512,185
Total assets	\$ 748,306	\$ 786,644
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 11,591	\$ 8,084
Accrued expenses	17,065	22,505
Accrued payroll and related benefits	37,837	66,464
Accrued consideration for business acquisitions, current portion	3,500	35,062
Income tax payable	186	101
Deferred revenues	25,213	36,721
Current liabilities of discontinued operations	103	765
Total current liabilities	95,495	169,702
Non-current liabilities:		
Deferred compensation and other liabilities	7,732	7,856
Bank borrowings	213,500	193,500
Deferred lease incentives	6,905	6,670
Deferred income taxes	14,179	12,078
Non-current liabilities of discontinued operations		49
Total non-current liabilities	242,316	220,153
Commitments and Contingencies		
Stockholders equity		
	237	234

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Common stock; \$0.01 par value; 500,000,000 shares authorized; 24,738,777 and 24,208,549 shares issued at June 30, 2012 and December 31, 2011, respectively		
Treasury stock, at cost, 1,788,117 and 1,642,018 shares at June 30, 2012 and December 31, 2011, respectively	(80,820)	(75,735)
Additional paid-in capital	412,352	400,597
Retained earnings	80,265	72,902
Accumulated other comprehensive loss	(1,539)	(1,209)
Total stockholders' equity	410,495	396,789
Total liabilities and stockholders' equity	\$ 748,306	\$ 786,644

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

HURON CONSULTING GROUP INC.

CONSOLIDATED STATEMENTS OF EARNINGS AND OTHER COMPREHENSIVE INCOME

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues and reimbursable expenses:				
Revenues	\$ 144,671	\$ 153,070	\$ 283,308	\$ 289,691
Reimbursable expenses	14,554	13,216	28,350	25,140
Total revenues and reimbursable expenses	159,225	166,286	311,658	314,831
Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses):				
Direct costs	91,878	91,132	188,659	179,207
Intangible assets amortization	1,142	1,369	2,284	2,802
Reimbursable expenses	14,585	13,326	28,403	25,381
Total direct costs and reimbursable expenses	107,605	105,827	219,346	207,390
Operating expenses:				
Selling, general and administrative	31,275	31,070	61,342	60,639
Restructuring charges	229	461	1,059	985
Restatement related expenses	212	1,785	1,717	3,025
Litigation settlements, net	1,150	508	1,150	1,096
Depreciation and amortization	4,053	4,336	8,706	8,582
Total operating expenses	36,919	38,160	73,974	74,327
Operating income	14,701	22,299	18,338	33,114
Other income (expense):				
Interest (expense), net of interest income	(2,015)	(3,535)	(3,881)	(7,107)
Other (expense) income	(163)	(65)	170	39
Total other expense	(2,178)	(3,600)	(3,711)	(7,068)
Income from continuing operations before income tax expense	12,523	18,699	14,627	26,046
Income tax expense	6,218	9,535	7,735	13,408
Net income from continuing operations	6,305	9,164	6,892	12,638
Income from discontinued operations, net of tax	202	305	471	887
Net income	\$ 6,507	\$ 9,469	\$ 7,363	\$ 13,525
Net earnings per basic share:				
Net income from continuing operations	\$ 0.29	\$ 0.43	\$ 0.32	\$ 0.60
Income from discontinued operations, net of tax	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.04
Net income	\$ 0.30	\$ 0.45	\$ 0.34	\$ 0.64

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Net earnings per diluted share:				
Net income from continuing operations	\$ 0.28	\$ 0.43	\$ 0.31	\$ 0.59
Income from discontinued operations, net of tax	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.04
Net income	\$ 0.29	\$ 0.44	\$ 0.33	\$ 0.63
Weighted average shares used in calculating earnings per share:				
Basic	21,918	21,190	21,847	21,058
Diluted	22,248	21,476	22,206	21,316
Comprehensive Income:				
Net income	\$ 6,507	\$ 9,469	\$ 7,363	\$ 13,525
Foreign currency translation (loss) gain, net of tax	(377)	291	(138)	603
Unrealized (loss) gain on cash flow hedging instruments, net of tax	(241)	175	(192)	307
Other comprehensive (loss) income	(618)	466	(330)	910
Comprehensive income	\$ 5,889	\$ 9,935	\$ 7,033	\$ 14,435

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

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Stockholders Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2011	23,362,828	\$ 234	(1,679,033)	\$ (75,735)	\$ 400,597	\$ 72,902	\$ (1,209)	\$ 396,789
Comprehensive income						7,363	(330)	7,033
Issuance of common stock in connection with:								
Restricted stock awards, net of cancellations	334,808	3	(14,142)	(1,260)	1,257			
Exercise of stock options	18,805				29			29
Share-based compensation					9,754			9,754
Shares withheld for employee tax withholdings			(100,313)	(3,825)				(3,825)
Income tax benefit on share-based compensation					715			715
Balance at June 30, 2012	23,716,441	\$ 237	(1,793,488)	\$ (80,820)	\$ 412,352	\$ 80,265	\$ (1,539)	\$ 410,495

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

HURON CONSULTING GROUP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 7,363	\$ 13,525
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,644	11,501
Share-based compensation	8,591	9,694
Allowances for doubtful accounts and unbilled services	(2,488)	1,685
Deferred income taxes	3,184	13,023
Gain on disposal of property and equipment		(46)
Non-cash portion of litigation settlement		1,096
Changes in operating assets and liabilities, net of businesses acquired:		
Decrease in receivables from clients	27,881	7,941
Decrease (increase) in unbilled services	226	(18,933)
Decrease (increase) in current income tax receivable, net	12,167	(4,247)
Decrease in other assets	921	717
(Decrease) increase in accounts payable and accrued liabilities	(2,638)	516
Decrease in accrued payroll and related benefits	(28,058)	(9,122)
(Decrease) increase in deferred revenues	(11,271)	4,700
Net cash provided by operating activities	28,522	32,050
Cash flows from investing activities:		
Purchases of property and equipment, net	(11,760)	(6,193)
Net investment in life insurance policies	(264)	(618)
Purchases of businesses	(33,136)	(23,881)
Net cash used in investing activities	(45,160)	(30,692)
Cash flows from financing activities:		
Proceeds from exercise of stock options	29	219
Shares redeemed for employee tax withholdings	(3,825)	(2,531)
Tax benefit from share-based compensation	1,253	200
Proceeds from borrowings under credit facility	138,500	168,500
Repayments on credit facility	(118,500)	(171,500)
Payments of capital lease obligations	(6)	(45)
Net cash provided by financing activities	17,451	(5,157)
Effect of exchange rate changes on cash	(121)	710
Net decrease in cash and cash equivalents	692	(3,089)
Cash and cash equivalents at beginning of the period ⁽¹⁾	5,080	6,347
Cash and cash equivalents at end of the period	\$ 5,772	\$ 3,258

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Supplemental disclosure of cash flow information:

Non-cash financing activities:

Issuance of common stock in connection with settlement of class action lawsuit	\$	\$ 13,648
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- (1) Cash and cash equivalents presented herein includes \$0.1 million of cash and cash equivalents classified as discontinued operations as of December 31, 2010.

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

HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

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, reduce costs, recover from distress, leverage technology, process and review large amounts of complex data, and stimulate growth. We team with our clients to deliver sustainable and measurable results. Our professionals employ their expertise in healthcare administration, finance 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 healthcare organizations, leading academic institutions, governmental entities, Fortune 500 companies, medium-sized businesses, and the law firms that represent these various organizations.

2. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements reflect the financial position, results of operations and cash flows as of and for the three and six months ended June 30, 2012 and 2011. These financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q. Accordingly, these financial statements do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual financial statements. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair presentation of our financial position, results of operations and cash flows for the interim periods presented in conformity with GAAP. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto for the year ended December 31, 2011 included in our Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the period ended March 31, 2012.

Certain amounts reported in the previous year have been reclassified to conform to the 2012 presentation. Our results for any interim period are not necessarily indicative of results for a full year or any other interim period.

3. New Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. The Company adopted this pronouncement in the first quarter of 2012. However, ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, has deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive income. ASU 2011-12 would still require companies to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The Company does not expect the guidance in ASU 2011-12 to impact its Consolidated Financial Statements, as it only requires a change in the format of presentation.

4. Discontinued Operations

In recent years, we have undertaken several separate initiatives to divest certain practices within the Financial Consulting segment in order to enable us to devote more of our energy and financial resources to the remaining businesses of the Company where we have a more substantial market presence. On December 30, 2011, we sold the Accounting Advisory (AA) practice to a group of investors including the managing director of the practice at the time. On September 30, 2010, we completed a sale of a portion of the Disputes and Investigations (D&I) practice

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and wound down the remaining practice operations as of that same date. Additionally, during the third quarter of 2010 we exited the Utilities Consulting (Utilities) practice. In December 2009, our Board of Directors approved a plan to divest the businesses that included the international operations of our Japan office (Japan). On June 30, 2010, we exited Japan via a wind down of the business. The Company recognized a loss of \$1.9 million in connection with the sale of AA and a gain of \$1.2 million in connection with the sale of D&I.

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

As a result of these actions, the operating results of AA, D&I, Utilities and Japan are reported as discontinued operations. All other operations of the business are considered continuing operations. Amounts previously reported have been reclassified to conform to this presentation in accordance with FASB ASC Topic 205, Presentation of Financial Statements, to allow for meaningful comparison of continuing operations. The Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 aggregate amounts associated with the discontinued operations as described above. Summarized operating results of discontinued operations are presented in the following table (amounts in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues	\$ 293	\$ 6,307	\$ 683	\$ 12,716
Income from discontinued operations before income tax expense	\$ 334	\$ 532	\$ 758	\$ 1,413
Net income from discontinued operations	\$ 202	\$ 305	\$ 471	\$ 887

The carrying amounts of the major classes of assets and liabilities aggregated in discontinued operations in the Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011 are presented in the following table.

	June 30, 2012	December 31, 2011
Assets		
Receivables from clients, net	\$ 435	\$ 3,301
Other current assets		44
Total current assets	435	3,345
Total assets	\$ 435	\$ 3,345
Liabilities		
Accrued payroll and related benefits	\$	\$ 585
Accounts payable, accrued expenses and other liabilities	103	180
Total current liabilities	103	765
Other non-current liabilities		49
Total liabilities	\$ 103	\$ 814

5. Goodwill and Intangible Assets

The table below sets forth the changes in the carrying amount of goodwill by segment for the six months ended June 30, 2012.

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	Health and Education Consulting	Legal Consulting	Financial Consulting	Total
Balance as of December 31, 2011:				
Goodwill	\$ 450,828	\$ 33,180	\$ 158,077	\$ 642,085
Accumulated impairment			(129,900)	(129,900)
Goodwill, net as of December 31, 2011	450,828	33,180	28,177	512,185