Huron Consulting Group Inc.
Form 10-Q
October 22, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10–Q

(Mark One)

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

For the quarterly period ended September 30, 2015
OR

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

Commission file number: 000-50976

HURON CONSULTING GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware (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 ý   No o

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 ý   No o

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	ý	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

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

As of October 15, 2015, 22,934,318 shares of the registrant's common stock, par value $0.01 per share, were outstanding.

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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)

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$13,462	$256,872
Receivables from clients, net	123,984	98,640
Unbilled services, net	82,447	91,392
Income tax receivable	4,778	8,125
Deferred income taxes, net	9,228	14,772
Prepaid expenses and other current assets	22,962	16,358
Total current assets	256,861	486,159
Property and equipment, net	47,457	44,677
Long-term investment	34,050	12,250
Other non-current assets	24,525	20,998
Intangible assets, net	102,450	24,684
Goodwill	806,801	567,146
Total assets	$1,272,144	$1,155,914
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$9,718	$11,085
Accrued expenses	25,227	17,315
Accrued payroll and related benefits	62,600	106,488
Current maturities of long-term debt	—	28,750
Deferred revenues	22,721	12,738
Total current liabilities	120,266	176,376
Non-current liabilities:		
Deferred compensation and other liabilities	16,204	10,838
Long-term debt, net of current portion	419,426	327,852
Deferred lease incentives	14,535	13,359
Deferred income taxes, net	53,842	26,855
Total non-current liabilities	504,007	378,904
Commitments and contingencies		
Stockholders’ equity		
Common stock; $0.01 par value; 500,000,000 shares authorized; 25,142,424 and 24,976,395 shares issued at September 30, 2015 and December 31, 2014, respectively	243	241
Treasury stock, at cost, 2,207,972 and 2,097,173 shares at September 30, 2015 and December 31, 2014, respectively	(101,239)	(94,074)
Additional paid-in capital	453,317	442,308
Retained earnings	294,523	254,814

Accumulated other comprehensive income (loss)	1,027	(2,655)
Total stockholders' equity	647,871	600,634
Total liabilities and stockholders' equity	$1,272,144	$1,155,914

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues and reimbursable expenses:				
Revenues	$209,881	$198,049	$621,378	$618,185
Reimbursable expenses	17,356	18,679	55,900	58,923
Total revenues and reimbursable expenses	227,237	216,728	677,278	677,108
Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses):				
Direct costs	115,587	129,899	366,078	377,798
Amortization of intangible assets and software development costs	4,796	1,227	12,277	3,618
Reimbursable expenses	17,103	18,651	55,826	58,981
Total direct costs and reimbursable expenses	137,486	149,777	434,181	440,397
Operating expenses and other operating (gains) losses:				
Selling, general and administrative expenses	43,629	39,276	132,627	120,148
Restructuring charges	303	233	2,490	1,396
Litigation and other (gains) losses	—	(150)	524	(590)
Depreciation and amortization	8,994	6,315	25,771	18,638
Total operating expenses and other operating (gains) losses	52,926	45,674	161,412	139,592
Operating income	36,825	21,277	81,685	97,119
Other income (expense), net:				
Interest expense, net of interest income	(4,642)	(1,878)	(13,800)	(4,843)
Other income (expense), net	(1,379)	(54)	(1,939)	291
Total other expense, net	(6,021)	(1,932)	(15,739)	(4,552)
Income before income tax expense	30,804	19,345	65,946	92,567
Income tax expense	11,430	7,126	26,237	26,309
Net income	$19,374	$12,219	$39,709	$66,258
Earnings per share:				
Basic	$0.88	$0.54	$1.79	$2.94
Diluted	$0.86	$0.53	$1.76	$2.87
Weighted average shares used in calculating earnings per share:				
Basic	22,107	22,488	22,151	22,573
Diluted	22,592	22,975	22,616	23,052
Comprehensive income:				
Net income	$19,374	$12,219	$39,709	$66,258
Foreign currency translation loss, net of tax	(615)	(1,127)	(201)	(735)
Unrealized gain on investment, net of tax	—	152	4,135	152
Unrealized gain (loss) on cash flow hedging instruments, net of tax	(91)	304	(252)	124
Other comprehensive income (loss)	(706)	(671)	3,682	(459)
Comprehensive income	$18,668	$11,548	$43,391	$65,799

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

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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 Income (Loss)	Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2014	24,115,593	$241	(2,109,316)	$(94,074)	$442,308	$254,814	$ (2,655)	$600,634
Comprehensive income						39,709	3,682	43,391
Issuance of common stock in connection with:								
Restricted stock awards, net of cancellations	404,525	4	(34,695)	(1,971)	1,967			—
Business acquisition	28,486	—			2,204			2,204
Share-based compensation					17,239			17,239
Shares redeemed for employee tax withholdings			(76,670)	(5,194)				(5,194)
Income tax benefit on share-based compensation					3,095			3,095
Share repurchases	(217,279)	(2)			(13,496)			(13,498)
Balance at September 30, 2015	24,331,325	$243	(2,220,681)	$(101,239)	$453,317	$294,523	$ 1,027	$647,871

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

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income	$39,709	$66,258
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,220	22,636
Share-based compensation	15,288	15,504
Amortization of debt discount and issuance costs	6,985	1,482
Allowances for doubtful accounts and unbilled services	(1,605)	8,829
Deferred income taxes	13,407	1,817
Changes in operating assets and liabilities, net of acquisitions:		
(Increase) decrease in receivables from clients	(14,725)	26,807
(Increase) decrease in unbilled services	15,179	(44,020)
(Increase) decrease in current income tax receivable / payable, net	3,704	(9,690)
(Increase) decrease in other assets	(5,381)	3,258
Increase (decrease) in accounts payable and accrued liabilities	8,459	11,466
Increase (decrease) in accrued payroll and related benefits	(43,510)	(9,565)
Increase (decrease) in deferred revenues	7,507	(2,661)
Net cash provided by operating activities	83,237	92,121
Cash flows from investing activities:		
Purchases of property and equipment, net	(15,040)	(16,683)
Investment in life insurance policies	(4,823)	(1,151)
Purchases of businesses	(332,766)	(51,694)
Purchases of convertible debt investment	(15,138)	(12,500)
Capitalization of internally developed software costs	(735)	—
Proceeds from note receivable	—	328
Net cash used in investing activities	(368,502)	(81,700)
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	848
Shares redeemed for employee tax withholdings	(5,194)	(3,461)
Tax benefit from share-based compensation	3,117	4,962
Share repurchases	(13,498)	(45,092)
Proceeds from borrowings under credit facility	272,000	129,000
Repayments on credit facility	(214,500)	(147,750)
Proceeds from convertible senior notes issuance	—	250,000
Proceeds from sale of warrants	—	23,625
Payments for convertible senior note hedge	—	(42,125)
Payments for debt issue costs	—	(7,346)
Payments for capital lease obligations	(48)	(63)
Deferred payments for purchase of property and equipment	—	(471)
Deferred acquisition payment	—	(4,745)

Net cash provided by financing activities	41,877	157,382
Effect of exchange rate changes on cash	(22)	(21)
Net (decrease) increase in cash and cash equivalents	(243,410)	167,782
Cash and cash equivalents at beginning of the period	256,872	58,131
Cash and cash equivalents at end of the period	$13,462	$225,913
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities:		
Property and equipment expenditures included in accounts payable and accrued expenses	$2,201	$2,755
Contingent consideration related to business acquisitions	$900	$590
Common stock issued related to business acquisition	$2,204	$—

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

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

1. Description of Business

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

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 nine months ended September 30, 2015 and 2014. These financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) for Quarterly Reports on Form 10-Q. Accordingly, these financial statements do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America (“GAAP”) for annual financial statements. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair statement of our financial position, results of operations, and cash flows for the interim periods presented in conformity with GAAP. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto for the year ended December 31, 2014 included in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2015 and June 30, 2015.

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

3. New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance is effective for us beginning in the first quarter of 2016 with early adoption permitted. The guidance may be applied either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We are currently evaluating the potential effect this guidance will have on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements: Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting, which clarifies the treatment of debt issuance costs from line-of-credit arrangements after the adoption of ASU 2015-03. ASU 2015-15 clarifies that the SEC staff would not object to an entity deferring and presenting debt issuance costs related to a line-of-credit arrangement as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of such arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for us beginning in the first quarter of 2016 and will be applied on a retrospective basis. Early adoption is permitted. We are currently evaluating the potential effect this guidance will have on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which amends the consolidation requirements in Accounting Standards Codification (“ASC”) 810, Consolidation. ASU 2015-02 makes targeted amendments to the current consolidation guidance, which could change consolidation conclusions. This guidance will be effective for us beginning in the first quarter of 2016 and early adoption is permitted. We do not expect the adoption of this guidance to have any impact on our consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, as a new Topic, ASC 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delays the effective date of ASU 2014-09 by one year. As a result, ASU 2014-09, as amended, is effective for us beginning in the first quarter of 2018 and is to be applied retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. Early adoption will be permitted as of the original effective date in ASU 2014-09 (i.e., annual reporting periods beginning after December 15, 2016). We are currently evaluating the potential effect of adopting this guidance on our consolidated financial statements, as well as the transition methods.

4. Goodwill and Intangible Assets

The table below sets forth the changes in the carrying amount of goodwill by reportable segment for the nine months ended September 30, 2015.

	Huron Healthcare	Huron Education and Life Sciences	Huron Legal	Huron Business Advisory	Total
Balance as of December 31, 2014:					
Goodwill	$377,588	$102,906	$52,555	$177,080	$710,129
Accumulated impairment	—	—	—	(142,983)	(142,983)
Goodwill, net as of December 31, 2014	377,588	102,906	52,555	34,097	567,146
Goodwill recorded in connection with business acquisitions	232,676	—	7,363	448	240,487
Foreign currency translation	—	—	(219)	(613)	(832)
Goodwill, net as of September 30, 2015	$610,264	$102,906	$59,699	$33,932	$806,801

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

Intangible assets as of September 30, 2015 and December 31, 2014 consisted of the following:

		September 30, 2015		December 31, 2014	
	Useful Life in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer contracts	1 to 4	$25,373	$8,634	$243	$71
Customer relationships	3 to 13	84,971	27,585	42,345	21,228
Non-competition agreements	2 to 5	3,700	1,728	3,495	1,072
Trade names	5 to 8	22,920	3,906	160	67
Technology and software	3 to 7	9,851	5,124	4,321	3,461
Publishing content	3	3,300	688	—	—
License	2	—	—	50	31
Total		$150,115	$47,665	$50,614	$25,930

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

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HURON CONSULTING GROUP INC.
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Intangible assets amortization expense was $8.3 million and $22.0 million for the three and nine months ended September 30, 2015, respectively. Intangible asset amortization expense was $2.8 million and $8.3 million for the three and nine months ended September 30, 2014, respectively. The table below sets forth the estimated annual amortization expense for the year ending December 31, 2015 and each of the five succeeding years for the intangible assets recorded as of September 30, 2015.

Year Ending December 31,	Estimated Amount
2015	$30,318
2016	$29,372
2017	$24,950
2018	$14,660
2019	$9,241
2020	$5,664

Actual future amortization expense could differ from these estimated amounts as a result of future acquisitions and other factors.

5. Acquisitions

Studer Holdings, Inc.

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

The acquisition date fair value of the consideration transferred for Studer Group was approximately $325.2 million, which consisted of the following:

Fair value of consideration transferred		
Cash	$323,237	
Common stock	2,204	
Net working capital adjustment	(255	)
Total consideration transferred	$325,186	

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

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

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HURON CONSULTING GROUP INC.
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(Tabular amounts in thousands, except per share amounts)
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The following table summarizes the preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed as of the acquisition date.

	Amount
Assets acquired:	
Accounts receivable	$14,906
Prepaid expenses and other current assets	1,385
Deferred income tax asset	4,335
Property and equipment	4,509
Intangible assets	97,500
Liabilities assumed:	
Accounts payable	760
Accrued expenses and other current liabilities	2,868
Accrued payroll and related benefits	1,574
Deferred revenues	2,449
Deferred income tax liability	21,263
Other non-current liabilities	1,211
Total identifiable net assets	92,510
Goodwill	232,676
Total purchase price	$325,186

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

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

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

Studer Group's results of operations have been included in our unaudited consolidated statements of earnings and other comprehensive income and results of operations of our Huron Healthcare segment from the date of acquisition. For the three months ended September 30, 2015, revenues from Studer Group were $22.3 million and operating income was $1.6 million, which included $6.1 million of amortization expense for intangible assets acquired. For the nine months ended September 30, 2015, revenues from Studer Group were $56.0 million and operating income was $3.6 million, which included $15.2 million of amortization expense for intangible assets acquired. In connection with the acquisition of Studer Group, we incurred $2.1 million of transaction and acquisition-related expenses, $0.9 million of which were incurred in the fourth quarter of 2014, $1.0

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

million of which were incurred in the first quarter of 2015, and the remaining $0.2 million were incurred in the second quarter of 2015. These costs are recorded in selling, general, and administrative expenses in the period in which they were incurred.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues	$209,881	$218,409	$632,200	$674,118
Net income	$19,606	$10,173	$41,016	$60,988
Net income per share - basic	$0.89	$0.45	$1.85	$2.70
Net income per share - diluted	$0.87	$0.44	$1.81	$2.64

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

Sky Analytics, Inc.

Effective January 1, 2015, we completed the acquisition of Sky Analytics, Inc. ("Sky Analytics"), a Massachusetts-based provider of legal spend management software for corporate law departments. The acquisition date fair value of the consideration transferred totaled $9.7 million, which included cash of $8.8 million and the fair value of contingent consideration of $0.9 million. As part of the purchase price allocation, we recorded $2.0 million of intangible assets and $7.4 million of goodwill. The goodwill balance is not deductible for income tax purposes. Sky Analytics' results of operations have been included in our unaudited consolidated financial statements and results of operations of our Huron Legal segment from the date of acquisition.

Rittman Mead India

Effective July 1, 2015, we completed the acquisition of Rittman Mead Consulting Private Limited ("Rittman Mead India"), the India affiliate of Rittman Mead Consulting Ltd. Rittman Mead India is a data and analytics consulting firm that specializes in the implementation of enterprise performance management and analytics systems. The acquisition date fair value of the consideration transferred totaled $1.2 million. Rittman Mead India's results of operations have been included in our unaudited consolidated financial statements and results of operations of our Huron Business Advisory segment from the date of acquisition.

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

6. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$19,374	$12,219	$39,709	$66,258
Weighted average common shares outstanding – basic	22,107	22,488	22,151	22,573
Weighted average common stock equivalents	485	487	465	479
Weighted average common shares outstanding – diluted	22,592	22,975	22,616	23,052
Earnings per share:				
Basic	$0.88	$0.54	$1.79	$2.94
Diluted	$0.86	$0.53	$1.76	$2.87

The number of anti-dilutive securities excluded from the computation of the weighted average common stock equivalents presented above is shown in the following table.

	As of September 30,	
	2015	2014
Unvested restricted stock awards	—	14
Convertible senior notes	3,129	3,129
Warrants related to the issuance of convertible senior notes	3,129	3,129
Total anti-dilutive securities	6,258	6,272

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

In October 2014, our board of directors authorized a share repurchase program pursuant to which we may, from time to time, repurchase up to $50 million of our common stock through October 31, 2015 (the “October 2014 Share Repurchase Program”). In October 2015, our board of directors authorized an extension of the October 2014 Share Repurchase Program through October 31, 2016. The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, general market and business conditions, and applicable legal requirements. In the second quarter of 2015, 217,279 shares were repurchased and retired for $13.5 million under the October 2014 Share Repurchase Program. No shares were repurchased in the first or third quarter of 2015.

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7. Financing Arrangements

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

	September 30, 2015	December 31, 2014
1.25% convertible senior notes due 2019	$218,176	$212,852
Senior secured credit facility	201,250	143,750
Total debt	419,426	356,602
Current maturities of debt	—	(28,750)
Long-term debt, net of current portion	$419,426	$327,852

Convertible Notes

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

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

The initial conversion rate for the Convertible Notes is 12.5170 shares of our common stock per $1,000 principal amount of the Convertible Notes, which is equal to an initial conversion price of approximately $79.89 per share of our common stock. The conversion rate will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest, except in certain limited circumstances described in the Indenture. Upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture) the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Convertible Notes in connection with such make-whole fundamental change. Additionally, if the Company undergoes a “fundamental change” (as defined in the Indenture), a holder will have the option to require the Company to repurchase all or a portion of its Convertible Notes for cash at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest. As discussed below, the warrants, which were entered into in connection with the Convertible Notes, effectively raise the price at which economic dilution would occur from the initial conversion price of approximately $79.89 to approximately $97.12 per share.

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

- during any calendar quarter (and only during such calendar quarter) commencing after December 31, 2014 if, for each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on, and including, the last trading day of the immediately preceding calendar quarter, the last reported sale price of the Company’s common stock for such trading day is equal to or greater than 130% of the applicable conversion price on such trading day;
- during the five consecutive business day period immediately following any five consecutive trading day period (such five consecutive trading day period, the “measurement period”) in which, for each trading day of the measurement period, the “trading price” (as defined in the Indenture) per $1,000 principal amount of the Convertible Notes for such trading day was less than 98% of the product of the last reported sale price of the Company’s common stock for such trading day and the applicable conversion rate on such trading day; or

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

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

In accordance with ASC 470, Debt, we have separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was determined by measuring the fair value of a similar liability that does not have an associated convertible feature, assuming our non-convertible debt borrowing rate. The carrying value of the equity component representing the conversion option, which is recognized as a debt discount, was determined by deducting the fair value of the liability component from the proceeds of the Convertible Notes. The debt discount is amortized to interest expense using an effective interest rate of 4.751% over the term of the Convertible Notes. As of September 30, 2015, the remaining life of the Convertible Notes is 4.0 years. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

As of September 30, 2015 and December 31, 2014, the Convertible Notes consisted of the following:

	September 30, 2015	December 31, 2014
Liability component:		
Proceeds	$250,000	$250,000
Less: debt discount, net of amortization	(31,824)	(37,148)
Net carrying amount	$218,176	$212,852
Equity component[1]	$39,287	$39,287

(1) Included in Additional paid-in capital on the consolidated balance sheet.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Contractual interest coupon	$781	$182	$2,344	$182
Amortization of debt issuance costs	295	68	883	68
Amortization of debt discount	1,795	406	5,324	406
Total interest expense	$2,871	$656	$8,551	$656

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

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- Convertible Note Hedge Transactions. In connection with the issuance of the Convertible Notes, the Company entered into convertible note hedge transactions whereby the Company has call options to purchase a total of approximately 3.1 million shares of the Company's common stock, which is the number of shares initially issuable upon conversion of the Convertible Notes in full, at a price of approximately $79.89, which corresponds to the initial conversion price of the Convertible Notes, subject to customary anti-dilution adjustments substantially similar to those in the Convertible Notes. The convertible note hedge transactions are exercisable upon conversion of the Convertible Notes and will expire in 2019 if not earlier exercised. We paid an aggregate amount of $42.1 million for the convertible note hedge transactions, which was recorded as additional paid-in capital in the consolidated balance sheets. The convertible note hedge transactions are separate transactions and are not part of the terms of the Convertible Notes.
- Warrants. In connection with the issuance of the Convertible Notes, the Company sold warrants whereby the holders of the warrants have the option to purchase a total of approximately 3.1 million shares of the Company's common stock at a strike price of approximately $97.12. The warrants will expire incrementally on 100 different dates from January 6, 2020 to May 28, 2020 and are exercisable at each such expiry date. If the average market value per share of our common stock for the reporting period exceeds the strike price of the warrants, the warrants will have a dilutive effect on our earnings per share. We received aggregate proceeds of $23.6 million from the sale of the warrants, which was recorded as additional paid-in capital in the consolidated balance sheets. The warrants are separate transactions and are not part of the terms of the Convertible Notes or the convertible note hedge transactions.

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

Senior Secured Credit Facility

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

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

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

Fees and interest on borrowings vary based on our Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). At our option, borrowings under the Amended Credit Agreement will bear interest at one, two, three or six-month LIBOR or an alternate base rate, in each case plus the applicable margin. The applicable margin will fluctuate between 1.25% per annum and 1.75% per annum, in the case of LIBOR borrowings, or between 0.25% per annum and 0.75% per annum, in the case of base rate loans, based upon our Consolidated Leverage Ratio at such time.

Amounts borrowed under the Amended Credit Agreement may be prepaid at any time without premium or penalty. We are required to prepay the amounts outstanding under the Amended Credit Agreement in certain circumstances, including a requirement to pay all amounts outstanding under the Amended Credit Agreement 90 days prior to the Convertible Indebtedness Maturity Date (as defined in the Amended Credit Agreement) unless (1) the Convertible Indebtedness Maturity Date is waived or extended to a later date, (2) the Company can demonstrate (a) Liquidity (as defined in the Amended Credit Agreement) in an

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amount at least equal to the principal amount due on the Convertible Indebtedness Maturity Date, and (b) financial covenant compliance after giving effect to such payments and any additional indebtedness incurred on a pro forma basis, or (3) this requirement is waived by the Required Lenders (as defined in the Amended Credit Agreement). In addition, we have the right to permanently reduce or terminate the unused portion of the commitments provided under the Amended Credit Agreement at any time.

The loans and obligations under the Amended Credit Agreement are secured pursuant to a Second Amended and Restated Security Agreement and a Second Amended and Restated Pledge Agreement (the “Amended Pledge Agreement”) with Bank of America, N.A. as collateral agent, pursuant to which the Company and the subsidiary guarantors grant Bank of America, N.A., for the ratable benefit of the lenders under the Amended Credit Agreement, a first-priority lien, subject to permitted liens, on substantially all of the personal property assets of the Company and the subsidiary guarantors, and a pledge of 100% of the stock or other equity interests in all domestic subsidiaries and 65% of the stock or other equity interests in each “material first-tier foreign subsidiary” (as defined in the Amended Pledge Agreement).

The Amended Credit Agreement contains usual and customary representations and warranties; affirmative and negative covenants, which include limitations on liens, investments, additional indebtedness, and restricted payments; and two quarterly financial covenants as follows: (i) a maximum Consolidated Leverage Ratio of either 3.25 to 1.00 or 3.50 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (as defined in the Amended Credit Agreement) of 3.50 to 1.00. At September 30, 2015, we were in compliance with these financial covenants with a Consolidated Leverage Ratio of 2.49 to 1.00 and a Consolidated Interest Coverage Ratio of 18.30 to 1.00.

Borrowings outstanding under the Amended Credit Agreement at September 30, 2015 totaled $201.3 million. These borrowings carried a weighted average interest rate of 2.3%, including the effect of the interest rate swaps described below in Note 9 “Derivative Instruments and Hedging Activity." Borrowings outstanding under the Existing Credit Agreement at December 31, 2014 were $143.8 million and carried a weighted average interest rate of 2.3%. The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At September 30, 2015, we had outstanding letters of credit totaling $5.2 million, which are primarily used as security deposits for our office facilities. As of September 30, 2015, the unused borrowing capacity under the revolving credit facility was $293.5 million.

8. Restructuring Charges

During the third quarter of 2015, we incurred a $0.3 million pretax restructuring charge primarily related to updated assumptions for the lease accrual of the Washington, D.C. space vacated in the fourth quarter of 2014. During the second quarter of 2015, we incurred a $0.6 million pretax restructuring charge primarily related to workforce reductions in our All Other segment as we continue to wind down our public sector consulting practice and our foreign consulting operations based in the Middle East. During the first quarter of 2015, we incurred a $1.6 million pretax restructuring charge primarily related to workforce reductions. Of the $1.6 million charge, $1.0 million related to our Huron Legal segment, $0.5 million related to our All Other segment, and the remaining $0.1 million related to our corporate operations.

During the third quarter of 2014, we incurred a $0.2 million pretax restructuring charge primarily related to updated assumptions for the lease accrual of the London office space vacated in the second quarter of 2014. During the second quarter of 2014, we incurred a $1.0 million pretax restructuring charge related to the consolidation of office spaces in Chicago, New York, and London. Of the total $1.0 million charge, $0.6 million related to the accrual of our remaining lease obligations at vacated spaces, net of estimated sublease income, and $0.4 million related to accelerated depreciation of assets disposed of as a result of the space consolidation. The vacated locations in Chicago and New York were acquired as part of business acquisitions during 2013 and 2014. During the first quarter of 2014, we incurred a $0.1 million pretax restructuring charge related to workforce reductions in our London office to better align our resources with market demand in our Huron Legal segment.

As of September 30, 2015, our restructuring charge liability was $1.0 million which primarily represents the present value of remaining lease payments for our vacated office space in Washington, D.C. As of December 31, 2014, our restructuring charge liability was $1.2 million, and primarily consisted of the present value of remaining lease payments, net of estimated sublease income, for our vacated office spaces in Washington, D.C., Chicago, and New York. The restructuring charge liabilities are included as a component of Accrued expenses and Deferred compensation and other liabilities.

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9. Derivative Instruments and Hedging Activity

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

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

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

ASC 815, Derivatives and Hedging, requires companies to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. In accordance with ASC 815, we have designated these derivative instruments as cash flow hedges. As such, changes in the fair value of the derivative instruments are recorded as a component of other comprehensive income ("OCI") to the extent of effectiveness and reclassified into interest expense upon settlement. The ineffective portion of the change in fair value of the derivative instruments is recognized in interest expense. As of September 30, 2015, it was anticipated that $0.3 million of the losses, net of tax, currently recorded in accumulated other comprehensive income will be reclassified into earnings within the next 12 months. Our interest rate swap agreements were effective during the three and nine months ended September 30, 2015, inclusive of consideration of our credit facility amendment discussed in Note 7 "Financing Arrangements."

The table below sets forth additional information relating to these interest rate swaps designated as cash flow hedging instruments as of September 30, 2015 and December 31, 2014.

	Fair Value (Derivative Asset and Liability)	
Balance Sheet Location	September 30, 2015	December 31, 2014
Other non-current assets	$—	$516
Accrued expenses	$487	$643
Deferred compensation and other liabilities	$67	$10

All of the Company's derivative instruments are transacted under the International Swaps and Derivatives Association (ISDA) master agreements. These agreements permit the net settlement of amounts owed in the event of default and certain other termination events. Although netting is permitted, it is the Company's policy to record all derivative assets and liabilities on a gross basis on the Consolidated Balance Sheets. All of the Company's derivative instruments as of September 30, 2015 and December 31, 2014 were held with the same counterparty.

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

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10. Fair Value of Financial Instruments

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

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

The table below sets forth our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
September 30, 2015				
Assets:				
Promissory note	$—	$—	$2,278	$2,278
Convertible debt investment	—	—	34,050	34,050
Total assets	$—	$—	$36,328	$36,328
Liabilities:				
Interest rate swaps	$—	$554	$—	$554
Contingent consideration for business acquisitions	—	—	900	900
Total liabilities	$—	$554	$900	$1,454
December 31, 2014				
Assets:				
Promissory note	$—	$—	$2,137	$2,137