

Huron Consulting Group Inc.
Form 10-Q
April 30, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

Commission file number: 000-50976

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

Delaware 01-0666114
(State or other jurisdiction of (IRS Employer
incorporation or organization) 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

As of April 23, 2019, 22,883,027 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)

| | March 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$8,526 | \$33,107 |
| Receivables from clients, net | 104,674 | 109,677 |
| Unbilled services, net | 86,504 | 69,613 |
| Income tax receivable | 3,209 | 6,612 |
| Prepaid expenses and other current assets | 13,596 | 13,922 |
| Total current assets | 216,509 | 232,931 |
| Property and equipment, net | 38,359 | 40,374 |
| Deferred income taxes, net | 1,302 | 2,153 |
| Long-term investment | 54,038 | 50,429 |
| Operating lease right-of-use assets | 53,805 | — |
| Other non-current assets | 38,345 | 30,525 |
| Intangible assets, net | 43,461 | 47,857 |
| Goodwill | 645,541 | 645,263 |
| Total assets | \$1,091,360 | \$1,049,532 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$7,469 | \$10,020 |
| Accrued expenses and other current liabilities | 16,611 | 17,207 |
| Accrued payroll and related benefits | 53,966 | 109,825 |
| Accrued contingent consideration for business acquisitions | 10,014 | 9,991 |
| Current maturities of long-term debt | 245,569 | 243,132 |
| Current maturities of operating lease liabilities | 10,293 | — |
| Deferred revenues | 30,023 | 28,130 |
| Total current liabilities | 373,945 | 418,305 |
| Non-current liabilities: | | |
| Deferred compensation and other liabilities | 25,886 | 20,875 |
| Accrued contingent consideration for business acquisitions, net of current portion | 1,115 | 1,450 |
| Long-term debt, net of current portion | 79,722 | 53,853 |
| Operating lease liabilities, net of current portion | 60,280 | — |
| Deferred lease incentives | — | 13,693 |
| Deferred income taxes, net | 759 | 732 |
| Total non-current liabilities | 167,762 | 90,603 |
| Commitments and contingencies | | |
| Stockholders' equity | | |

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| | | |
|--|-------------|-------------|
| Common stock; \$0.01 par value; 500,000,000 shares authorized; 25,275,901 and 25,114,739 shares issued at March 31, 2019 and December 31, 2018, respectively | 247 | 244 |
| Treasury stock, at cost, 2,392,531 and 2,568,288 shares at March 31, 2019 and December 31, 2018, respectively | (126,983) | (124,794) |
| Additional paid-in capital | 457,748 | 452,573 |
| Retained earnings | 199,410 | 196,106 |
| Accumulated other comprehensive income | 19,231 | 16,495 |
| Total stockholders' equity | 549,653 | 540,624 |
| Total liabilities and stockholders' equity | \$1,091,360 | \$1,049,532 |

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

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HURON CONSULTING GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

(Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|------------|
| | 2019 | 2018 |
| Revenues and reimbursable expenses: | | |
| Revenues | \$204,445 | \$193,679 |
| Reimbursable expenses | 18,617 | 17,619 |
| Total revenues and reimbursable expenses | 223,062 | 211,298 |
| Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses): | | |
| Direct costs | 137,780 | 132,786 |
| Amortization of intangible assets and software development costs | 1,117 | 1,218 |
| Reimbursable expenses | 18,669 | 17,549 |
| Total direct costs and reimbursable expenses | 157,566 | 151,553 |
| Operating expenses and other losses (gains), net | | |
| Selling, general and administrative expenses | 50,749 | 47,078 |
| Restructuring charges | 1,275 | 712 |
| Other losses (gains), net | (456) |) 830 |
| Depreciation and amortization | 7,172 | 8,803 |
| Total operating expenses and other losses (gains), net | 58,740 | 57,423 |
| Operating income | 6,756 | 2,322 |
| Other income (expense), net: | | |
| Interest expense, net of interest income | (4,258) |) (4,986) |
| Other income (expense), net | 2,217 | (145) |
| Total other expense, net | (2,041) |) (5,131) |
| Income (loss) from continuing operations before taxes | 4,715 | (2,809) |
| Income tax expense | 1,365 | 413 |
| Net income (loss) from continuing operations | 3,350 | (3,222) |
| Loss from discontinued operations, net of tax | (46) |) (42) |
| Net income (loss) | \$3,304 | \$(3,264) |
| Net earnings (loss) per basic share: | | |
| Net income (loss) from continuing operations | \$0.15 | \$(0.15) |
| Loss from discontinued operations, net of tax | — | — |
| Net income (loss) | \$0.15 | \$(0.15) |
| Net earnings (loss) per diluted share: | | |
| Net income (loss) from continuing operations | \$0.15 | \$(0.15) |
| Loss from discontinued operations, net of tax | — | — |
| Net income (loss) | \$0.15 | \$(0.15) |
| Weighted average shares used in calculating earnings per share: | | |
| Basic | 21,868 | 21,592 |
| Diluted | 22,311 | 21,592 |
| Comprehensive income (loss): | | |
| Net income (loss) | \$3,304 | \$(3,264) |

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| | | |
|---|---------|----------|
| Foreign currency translation adjustments, net of tax | 316 | 34 |
| Unrealized gain on investment, net of tax | 2,657 | 2,166 |
| Unrealized gain (loss) on cash flow hedging instruments, net of tax | (237 |) 432 |
| Other comprehensive income | 2,736 | 2,632 |
| Comprehensive income (loss) | \$6,040 | \$(632) |

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

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

| | Three Months Ended March 31, 2019 | | | | Additional Paid-In Capital | Retained Earnings | Accumulated Comprehensive Income | Other Stockholders' Equity |
|---|-----------------------------------|--------------------------|-------------|-------------|----------------------------------|----------------------|--|----------------------------------|
| | Common Stock Shares | Treasury Stock Amount | Shares | Amount | | | | |
| Balance at December 31, 2018 | 24,418,252 | \$ 244 | (2,671,962) | \$(124,794) | \$452,573 | \$ 196,106 | \$ 16,495 | \$ 540,624 |
| Comprehensive income | | | | | | 3,304 | 2,736 | 6,040 |
| Issuance of common stock in connection with: | | | | | | | | |
| Restricted stock awards, net of cancellations | 254,550 | 3 | 27,612 | 2,196 | (2,199) | | | — |
| Exercise of stock options | 10,000 | — | | | 234 | | | 234 |
| Share-based compensation | | | | | 7,140 | | | 7,140 |
| Shares redeemed for employee tax withholdings | | | (94,500) | (4,385) | | | | (4,385) |
| Balance at March 31, 2019 | 24,682,802 | \$ 247 | (2,738,850) | \$(126,983) | \$457,748 | \$ 199,410 | \$ 19,231 | \$ 549,653 |
| | | | | | | | | |
| | Three Months Ended March 31, 2018 | | | | Additional Paid-In Capital | Retained Earnings | Accumulated Comprehensive Income | Other Stockholders' Equity |
| | Common Stock Shares | Treasury Stock Amount | Shares | Amount | | | | |
| Balance at December 31, 2017 | 24,098,822 | \$ 241 | (2,591,135) | \$(121,994) | \$434,256 | \$ 180,443 | \$ 10,370 | \$ 503,316 |
| Comprehensive income | | | | | | (3,264) | 2,632 | (632) |
| Issuance of common stock in connection with: | | | | | | | | |
| Restricted stock awards, net of cancellations | 198,546 | 2 | 34,177 | 1,443 | (1,445) | | | — |
| Exercise of stock options | 10,000 | — | | | 234 | | | 234 |
| Share-based compensation | | | | | 5,280 | | | 5,280 |

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| | | | | | | | | |
|---|------------|----------|-------------|-------------|-----------|-----------|-----------|------------|
| Shares redeemed for employee tax withholdings | (75,832) | (2,684) | | | | | | (2,684) |
| Cumulative-effect adjustment from adoption of ASC 606 | | | | 1,956 | | | | 1,956 |
| Balance at March 31, 2018 | 24,307,368 | \$ 243 | (2,632,790) | \$(123,235) | \$438,325 | \$179,135 | \$ 13,002 | \$ 507,470 |

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)

| | Three Months Ended March 31, | |
|--|------------------------------------|-----------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$3,304 | \$(3,264) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 10,710 | 10,021 |
| Lease impairment charge | 740 | — |
| Share-based compensation | 5,366 | 4,483 |
| Amortization of debt discount and issuance costs | 2,618 | 2,615 |
| Allowances for doubtful accounts and unbilled services | 59 | 201 |
| Change in fair value of contingent consideration liabilities | (391) | 830 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| (Increase) decrease in receivables from clients, net | 5,129 | (4,452) |
| (Increase) decrease in unbilled services, net | (16,850) | (15,991) |
| (Increase) decrease in current income tax receivable / payable, net | 3,490 | (805) |
| (Increase) decrease in other assets | (2,554) | (3,753) |
| Increase (decrease) in accounts payable and other liabilities | 2,396 | 901 |
| Increase (decrease) in accrued payroll and related benefits | (54,151) | (23,633) |
| Increase (decrease) in deferred revenues | 1,845 | (3,416) |
| Net cash used in operating activities | (38,289) | (36,263) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment, net | (2,349) | (1,369) |
| Investment in life insurance policies | (3,645) | (1,455) |
| Purchases of businesses, net of cash acquired | — | (215) |
| Capitalization of internally developed software costs | (2,093) | (728) |
| Net cash used in investing activities | (8,087) | (3,767) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | 234 | 234 |
| Shares redeemed for employee tax withholdings | (4,385) | (2,684) |
| Proceeds from borrowings under credit facility | 40,500 | 91,500 |
| Repayments of debt | (14,627) | (58,124) |
| Payments for debt issuance costs | — | (1,385) |
| Net cash provided by financing activities | 21,722 | 29,541 |
| Effect of exchange rate changes on cash | 73 | 16 |
| Net decrease in cash and cash equivalents | (24,581) | (10,473) |
| Cash and cash equivalents at beginning of the period | 33,107 | 16,909 |
| Cash and cash equivalents at end of the period | \$8,526 | \$6,436 |
| Supplemental disclosure of cash flow information: | | |
| Non-cash investing and financing activities: | \$1,913 | \$1,937 |

Property and equipment expenditures and capitalized software included in accounts payable and accrued expenses

Contingent consideration related to business acquisitions \$— \$212

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

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

1. Description of Business

Huron is a global consultancy that helps clients drive growth, enhance performance and sustain leadership in the markets they serve. We partner with clients to develop strategies and implement solutions that enable the transformative change our clients need to own their future.

2. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited consolidated financial statements reflect the financial position, results of operations, and cash flows as of and for the three months ended March 31, 2019 and 2018. 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 our consolidated financial statements and notes thereto for the year ended December 31, 2018 included in our Annual Report on Form 10-K. Our results for any interim period are not necessarily indicative of results for a full year or any other interim period.

On January 1, 2019, we adopted Accounting Standard Update ("ASU") 2016-02, Leases. Below is an update to our lease accounting policy as a result of the adoption. Refer to Note 3 "New Accounting Pronouncements" for additional information on the adoption of ASU 2016-02.

Leases

We determine if an arrangement contains a lease and the classification of such lease at inception. As of March 31, 2019, all of our material leases are classified as operating leases; we have not entered into any material finance leases. For all operating leases with an initial term greater than 12 months, we recognize an operating lease right-of-use ("ROU") asset and operating lease liability. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

Operating lease ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at lease commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at lease commencement date and provided by Bank of America, N.A., the administrative agent for our senior secured credit facility, in determining the present value of lease payments. The operating lease ROU asset excludes lease incentives.

Certain lease agreements contain variable lease payments that do not depend on an index or rate. These variable lease payments are not included in the calculation of the operating lease ROU asset and operating lease liability; instead, they are expensed as incurred. Certain lease agreements contain lease and nonlease components, which are accounted for separately. We separate the contract consideration between lease and nonlease components based on the relative standalone price of each component. Our leases may contain options to extend or terminate the lease, and we include these terms in our calculation of the operating lease ROU asset and operating lease liability when it is reasonably certain that we will exercise the option.

Operating lease expense is recognized on a straight-line basis over the lease term and recorded within selling, general and administrative expenses on our consolidated statement of operations. In accordance with our accounting policy for impairment of long-lived assets, operating lease ROU assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group to which the operating lease ROU asset is

assigned may not be recoverable. We evaluate the recoverability of the asset group based on forecasted undiscounted cash flows. See Note 5 "Leases" for additional information on our leases, including the lease impairment charge recorded in the first quarter of 2019.

3. New Accounting Pronouncements

Recently Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, Leases, as a new Topic, ASC 842, which superseded ASC Topic 840, Leases, and sets forth the principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record on the balance sheet a right-of-use asset and a lease liability, equal to the present value of the remaining lease payments, for all leases with a term greater th

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

an 12 months regardless of the lease classification. The lease classification will determine whether the lease expense is recognized using an effective interest rate method or on a straight-line basis over the term of the lease. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides an optional transition method that allows entities to initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings on the adoption date. We adopted ASC 842 effective January 1, 2019 on a modified retrospective basis for existing leases using the transition method allowed by ASU 2018-11, which had no impact on our consolidated financial statements in the prior periods presented. The new lease standard has a material impact on our consolidated balance sheet upon adoption, but does not impact our consolidated statement of operations. The most significant impact to our consolidated balance sheet is the recognition of ROU assets and lease liabilities for operating leases. The impact of the new lease standard on our consolidated balance sheet upon adoption follows:

| | As of December 31, 2018 | ASC 842 Adjustment | As of January 1, 2019 |
|---|-------------------------------|-----------------------|-----------------------------|
| Assets | | | |
| Operating lease right-of-use assets | \$ — | \$ 56,463 | \$56,463 |
| Liabilities | | | |
| Accrued expenses and other current liabilities | \$ 17,207 | \$ (2,557) | \$ 14,650 |
| Current maturities of operating lease liabilities | \$ — | \$ 10,537 | \$ 10,537 |
| Deferred compensation and other liabilities | \$ 20,875 | \$ (536) | \$ 20,339 |
| Deferred lease incentives | \$ 13,693 | \$ (13,693) | \$ — |
| Operating lease liabilities, net of current portion | \$ — | \$ 62,712 | \$62,712 |

Not Yet Adopted

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which modifies certain disclosure requirements related to fair value measurements. ASU 2018-13 will be effective for us beginning January 1, 2020, with early adoption permitted. We do not expect this guidance to have an impact on the amounts reported on our consolidated financial statements, and we are currently evaluating the potential impact this guidance will have on our disclosures within the notes to our consolidated financial statements.

4. Goodwill and Intangible Assets

The table below sets forth the changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2019.

| | Healthcare | Business Advisory | Education | Total |
|---------------------------------------|------------|----------------------|------------|--------------|
| Balance as of December 31, 2018: | | | | |
| Goodwill | \$ 636,810 | \$ 301,700 | \$ 102,829 | \$ 1,041,339 |
| Accumulated impairment losses | (208,081) | (187,995) | — | (396,076) |
| Goodwill, net as of December 31, 2018 | 428,729 | 113,705 | 102,829 | 645,263 |
| Foreign currency translation | — | 278 | — | 278 |
| Goodwill, net as of March 31, 2019 | \$ 428,729 | \$ 113,983 | \$ 102,829 | \$ 645,541 |

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

Intangible Assets

Intangible assets as of March 31, 2019 and December 31, 2018 consisted of the following:

| | | As of March 31, 2019 | | As of December 31, 2018 | |
|----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Useful Life (in years) | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | 4 to 13 | \$98,338 | \$ 63,653 | \$98,235 | \$ 60,462 |
| Trade names | 5 to 6 | 28,930 | 23,859 | 28,930 | 23,181 |
| Technology and software | 3 to 5 | 5,694 | 3,211 | 5,694 | 2,842 |
| Non-competition agreements | 3 to 5 | 3,650 | 2,446 | 3,650 | 2,241 |
| Favorable lease contract | 3 | 720 | 702 | 720 | 646 |
| Total | | \$137,332 | \$ 93,871 | \$137,229 | \$ 89,372 |

Identifiable intangible assets with finite lives are amortized over their estimated useful lives. Customer relationships, as well as certain trade names and technology and software, are amortized on an accelerated basis to correspond to the cash flows expected to be derived from the assets. All other intangible assets with finite lives are amortized on a straight-line basis.

Intangible asset amortization expense was \$4.5 million and \$6.3 million for the three months ended March 31, 2019 and 2018, respectively. The table below sets forth the estimated annual amortization expense for the year ending December 31, 2019 and each of the five succeeding years for the intangible assets recorded as of March 31, 2019.

| Year Ending December 31, | Estimated Amortization Expense |
|--------------------------|--------------------------------------|
| 2019 | \$ 17,206 |
| 2020 | \$ 12,083 |
| 2021 | \$ 8,064 |
| 2022 | \$ 6,090 |
| 2023 | \$ 3,512 |
| 2024 | \$ 741 |

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

5. Leases

We lease office space, data centers and certain equipment under operating leases expiring on various dates through 2028, with various renewal options that can extend the lease terms by one to ten years. Our operating leases include fixed payments plus, in some cases, scheduled base rent increases over the term of the lease. Certain leases require variable payments of real estate taxes and insurance. We exclude these variable payments from the measurements of our lease liabilities and expense them as incurred. Additionally, certain leases require payments for operating expenses applicable to the property. We account for these nonlease components separately from the lease components. No lease agreements contain any residual value guarantees or material restrictive covenants. As of March 31, 2019, we have not entered into any material finance leases. We sublease certain office spaces to third parties resulting from restructuring activities in certain locations.

During the first quarter of 2019, we exited a portion of a corporate office space and determined that the carrying amount of the asset group to which the related operating lease right-of-use ("ROU") asset is assigned may not be recoverable. Therefore, we performed a long-lived asset impairment test on the asset group, which is comprised of the

operating lease ROU asset and leasehold improvements of the office space. First, we tested the asset group for recoverability by comparing the undiscounted cash flows of the asset group, which included expected future lease and nonlease payments under the lease agreement offset by expected sublease income, to the carrying amount of the asset group. This first step of the long-lived asset impairment test concluded that the carrying amount of the asset group was not recoverable. Therefore, we performed the second step of the long-lived asset impairment test by comparing the fair value of the asset group to its carrying amount and recognizing a lease impairment charge for the amount by which the carrying amount exceeded the fair value. To estimate the fair value of the asset group, we relied on a discounted cash flow approach using market participant assumptions of the expected cash flows and discount rate. Based on the estimated fair value o

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

(Unaudited)

f the asset group, we recorded a \$0.7 million lease impairment charge, of which \$0.5 million was allocated to the operating lease ROU asset and \$0.2 million was allocated to the leasehold improvements based on their relative carrying amounts. The \$0.7 million lease impairment charge was recognized in restructuring charges on our consolidated statement of operations. See Note 9 "Restructuring Charges" for additional information on our restructuring activities.

Additional information on our operating leases as of March 31, 2019 follows.

| | |
|---|----------------------|
| Balance Sheet | March 31, 2019 |
| Operating lease right-of-use assets | \$53,805 |
| Current maturities of operating lease liabilities | \$10,293 |
| Operating lease liabilities, net of current portion | 60,280 |
| Total lease liabilities | \$70,573 |

| | |
|------------|--|
| Lease Cost | Three Months Ended March 31, 2019 |
|------------|--|

| | |
|----------------------------------|---------|
| Operating lease cost | \$3,000 |
| Short-term leases ⁽¹⁾ | 47 |
| Variable lease costs | 374 |
| Sublease income | (617) |
| Net lease cost ⁽²⁾ | \$2,804 |

(1) Includes variable lease costs related to short-term leases.

(2) Rent expense, including operating expenses, real estate taxes and insurance, recorded under ASC 840 for the three months ended March 31, 2018 was \$3.9 million.

The table below summarizes the remaining expected lease payments under our operating leases as of March 31, 2019 and December 31, 2018.

| Future Lease Payments | March 31, 2019 | December 31, 2018 ^(1, 2) |
|--|----------------------|---|
| 2019 | \$10,136 | \$ 13,701 |
| 2020 | 12,717 | 12,724 |
| 2021 | 11,595 | 11,590 |
| 2022 | 10,775 | 10,766 |
| 2023 | 10,711 | 10,707 |
| Thereafter | 27,035 | 27,033 |
| Total operating lease payments | \$82,969 | \$ 86,521 |
| Less: imputed interest | (12,396) | n/a |
| Present value of operating lease liabilities | \$ 70,573 | n/a |

(1)

The expected lease payments as of December 31, 2018 represent our future minimum rental commitments as defined by ASC 840.

(2) As of December 31, 2018, the expected total future minimum sublease income to be received was \$10.2 million.

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(Unaudited)

| | |
|---|---|
| Other Information | Three Months Ended March 31, 2019 |
| Cash paid for operating lease liabilities | \$3,554 |

| | |
|--|--------------|
| Weighted average remaining lease term - operating leases | 7.0 years |
| Weighted average discount rate - operating leases | 4.7 % |

During the first quarter of 2019, we entered into two new agreements to lease office space in Denver, Colorado and Bangalore, India. Both leases are expected to commence in the second quarter of 2019.

6. Revenues

For the three months ended March 31, 2019 and 2018, we recognized revenues of \$204.4 million and \$193.7 million, respectively. Of the \$204.4 million recognized in the first quarter of 2019, we recognized revenues of \$3.9 million from obligations satisfied, or partially satisfied, in prior periods, due to the release of allowances on unbilled services due to securing contract amendments. During the first quarter of 2019, we recognized a \$1.2 million decrease to revenues due to changes in the estimates of our variable consideration under performance-based billing arrangements. Of the \$193.7 million recognized in the first quarter of 2018, we recognized revenues of \$5.9 million from obligations satisfied, or partially satisfied, in prior periods, of which \$3.1 million was primarily due to the release of allowances on unbilled services due to securing contract amendments and \$2.8 million was due to changes in the estimates of our variable consideration under performance-based billing arrangements.

As of March 31, 2019, we had \$75.1 million of remaining performance obligations under engagements with original expected durations greater than one year. These remaining performance obligations exclude obligations under contracts with an original expected duration of one year or less, variable consideration which has been excluded from the total transaction price due to the constraint, and performance obligations under time-and-expense engagements which are recognized in the amount invoiced. Of the \$75.1 million of performance obligations, we expect to recognize approximately \$56.9 million as revenue in 2019, \$12.4 million in 2020, and the remaining \$5.8 million thereafter. Actual revenue recognition could differ from these amounts as a result of changes in the estimated timing of work to be performed, adjustments to estimated variable consideration in performance-based arrangements, or other factors.

Contract Assets and Liabilities

The payment terms and conditions in our customer contracts vary. Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or deferred revenues in the consolidated balance sheets.

Unbilled services include revenues recognized for services performed but not yet billed to clients. Services performed that we are not yet entitled to bill because certain events, such as the completion of the measurement period or client approval in performance-based engagements, must occur are recorded as contract assets and included within unbilled services, net. The contract asset balance as of March 31, 2019 and December 31, 2018 was \$3.7 million and \$9.1 million, respectively. The \$5.4 million decrease primarily reflects timing differences between the completion of our performance obligations and the amounts billed or billable to clients in accordance with their contractual billing terms. Client prepayments and retainers are classified as deferred revenues and recognized over future periods in accordance with the applicable engagement agreement and our revenue recognition policy. Our deferred revenues balance as of March 31, 2019 and December 31, 2018, was \$30.0 million and \$28.1 million, respectively. The \$1.9 million increase primarily reflects timing differences between client payments in accordance with their contract terms and the

completion of our performance obligations. For the three months ended March 31, 2019, \$11.7 million of revenues recognized were included in the deferred revenue balance as of December 31, 2018.

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7. Earnings Per Share

Basic earnings per share excludes dilution and is computed by dividing net income by the weighted average number of common shares outstanding for the period, excluding unvested restricted common stock. Diluted earnings per share reflects the potential reduction in earnings per share that could occur if securities or other contracts to issue common stock were exercised or converted into common stock under the treasury stock method. Such securities or other contracts include unvested restricted stock awards, outstanding common stock options, convertible senior notes, and outstanding warrants, to the extent dilutive. In periods for which we report a net loss from continuing operations, diluted weighted average common shares outstanding excludes all potential common stock equivalents as their impact on diluted net loss from continuing operations per share would be anti-dilutive.

Earnings (loss) per share under the basic and diluted computations are as follows:

| | Three Months Ended March 31, | |
|---|------------------------------------|-----------|
| | 2019 | 2018 |
| Net income (loss) from continuing operations | \$3,350 | \$(3,222) |
| Loss from discontinued operations, net of tax | (46) | (42) |
| Net income (loss) | \$3,304 | \$(3,264) |

| | | |
|--|--------|--------|
| Weighted average common shares outstanding – basic | 21,868 | 21,592 |
| Weighted average common stock equivalents | 443 | — |
| Weighted average common shares outstanding – diluted | 22,311 | 21,592 |

Net earnings (loss) per basic share:

| | | |
|---|--------|-----------|
| Net income (loss) from continuing operations | \$0.15 | \$(0.15) |
| Loss from discontinued operations, net of tax | — | — |
| Net income (loss) | \$0.15 | \$(0.15) |

Net earnings (loss) per diluted share:

| | | |
|---|--------|-----------|
| Net income (loss) from continuing operations | \$0.15 | \$(0.15) |
| Loss from discontinued operations, net of tax | — | — |
| Net income (loss) | \$0.15 | \$(0.15) |

The number of anti-dilutive securities excluded from the computation of the weighted average common stock equivalents presented above were as follows:

| | As of March 31, | |
|--|--------------------|-------|
| | 2019 | 2018 |
| Unvested restricted stock awards | 12 | 723 |
| Outstanding common stock options | — | 184 |
| Convertible senior notes | 3,129 | 3,129 |
| Warrants related to the issuance of convertible senior notes | 3,129 | 3,129 |
| Total anti-dilutive securities | 6,270 | 7,165 |

See Note 8 “Financing Arrangements” for further information on the convertible senior notes and warrants related to the issuance of convertible notes.

We currently have a share repurchase program permitting us to repurchase up to \$125 million of our common stock through October 31, 2019 (the “Share Repurchase Program”). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our credit facility, general market and business conditions, and applicable legal requirements. No shares were repurchased during the first three months of 2019 and 2018. As of March 31, 2019, \$35.1 million remains available for share repurchases.

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8. Financing Arrangements

A summary of the carrying amounts of our debt follows:

| | March 31, 2019 | December 31, 2018 |
|---|-------------------|----------------------|
| 1.25% convertible senior notes due 2019 | \$245,051 | \$ 242,617 |
| Senior secured credit facility | 76,000 | 50,000 |
| Promissory note due 2024 | 4,240 | 4,368 |
| Total long-term debt | \$325,291 | \$ 296,985 |
| Current maturities of long-term debt | (245,569) | (243,132) |
| Long-term debt, net of current portion | \$79,722 | \$ 53,853 |

Below is a summary of the scheduled remaining principal payments of our debt as of March 31, 2019.

| | |
|------------|--|
| | Principal Payments of Long-Term Debt |
| 2019 | \$ 250,387 |
| 2020 | \$ 529 |
| 2021 | \$ 544 |
| 2022 | \$ 559 |
| 2023 | \$ 76,575 |
| Thereafter | \$ 1,646 |

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. We expect to refinance the principal amount of the outstanding Convertible Notes at maturity with the borrowing capacity available under our revolving credit facility. 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 convertible note

hedge transactions and 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.

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

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

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

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

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

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 March 31, 2019, the remaining life of the Convertible Notes is six months. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

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 recorded as a deduction to the carrying amount of the liability and amortized to interest expense over the term of the Convertible Notes; and transaction costs attributable to the equity component are 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.

As of March 31, 2019 and December 31, 2018, the Convertible Notes consisted of the following:

| | March 31, 2019 | December 31, 2018 |
|--|-------------------|----------------------|
| Liability component: | | |
| Proceeds | \$250,000 | \$ 250,000 |
| Less: debt discount, net of amortization | (4,316) | (6,436) |
| Less: debt issuance costs, net of amortization | (633) | (947) |
| Net carrying amount | \$245,051 | \$ 242,617 |
| Equity component ⁽¹⁾ | \$39,287 | \$ 39,287 |

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

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

| | Three Months Ended March 31, | |
|-------------------------------------|------------------------------------|---------|
| | 2019 | 2018 |
| Contractual interest coupon | \$781 | \$781 |
| Amortization of debt discount | 2,120 | 2,021 |
| Amortization of debt issuance costs | 315 | 309 |
| Total interest expense | \$3,216 | \$3,111 |

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.

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 on the consolidated balance sheet. 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 on the consolidated balance sheet. 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 deferred income taxes, net on the consolidated balance sheets.

Senior Secured Credit Facility

The Company has a \$500 million five-year senior secured revolving credit facility, subject to the terms of a Second Amended and Restated Credit Agreement dated as of March 31, 2015, as amended to date (as amended and modified the "Amended Credit Agreement"), that becomes due and payable in full upon maturity on March 23, 2023. The Amended Credit Agreement provides the option to increase the revolving credit facility or establish term loan

facilities in an aggregate amount of up to \$150 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 \$650 million. The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under a prior credit agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, acquisitions of businesses, 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 2.00% per annum, in the case of

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LIBOR borrowings, or between 0.25% per annum and 1.00% 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 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 "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 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 (defined as the ratio of debt to consolidated EBITDA) ranging from 3.50 to 1.00 to 4.00 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (defined as the ratio of consolidated EBITDA to interest) of 3.50 to 1.00. Consolidated EBITDA for purposes of the financial covenants is calculated on a continuing operations basis and includes adjustments to add back non-cash goodwill impairment charges, share-based compensation costs, certain non-cash restructuring charges, pro forma historical EBITDA for businesses acquired, and other specified items in accordance with the Amended Credit Agreement. At March 31, 2019, we were in compliance with these financial covenants with a Consolidated Leverage Ratio of 2.99 to 1.00 and a Consolidated Interest Coverage Ratio of 12.08 to 1.00.

Borrowings outstanding under the Amended Credit Agreement at March 31, 2019 totaled \$76.0 million. These borrowings carried a weighted average interest rate of 4.5%, including the effect of the interest rate swap described in Note 10 "Derivative Instrument and Hedging Activity." Borrowings outstanding under the Amended Credit Agreement at December 31, 2018 were \$50.0 million and carried a weighted average interest rate of 3.7%, including the effect of the interest rate swap described in Note 10 "Derivative Instrument and Hedging Activity." The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At March 31, 2019, we had outstanding letters of credit totaling \$1.6 million, which are primarily used as security deposits for our office facilities. As of March 31, 2019, the unused borrowing capacity under the revolving credit facility was \$422.4 million.

Promissory Note due 2024

On June 30, 2017, in conjunction with our purchase of an aircraft related to the acquisition of Innosight, we assumed, from the sellers of the aircraft, a promissory note with an outstanding principal balance of \$5.1 million. The principal balance of the promissory note is subject to scheduled monthly principal payments until the maturity date of March 1, 2024, at which time a final payment of \$1.5 million, plus any accrued and unpaid interest, will be due. Under the

terms of the promissory note, we will pay interest on the outstanding principal amount at a rate of one-month LIBOR plus 1.97% per annum. The obligations under the promissory note are secured pursuant to a Loan and Aircraft Security Agreement with Banc of America Leasing & Capital, LLC, which grants the lender a first priority security interest in the aircraft. At March 31, 2019, the outstanding principal amount of the promissory note was \$4.2 million. As of March 31, 2019, the aircraft had a carrying amount of \$5.6 million. At December 31, 2018, the outstanding principal amount of the promissory note was \$4.4 million, and the aircraft had a carrying amount of \$5.8 million.

9. Restructuring Charges

Restructuring charges for the first three months of 2019 totaled \$1.3 million, compared to \$0.7 million for the first three months of 2018. During the first quarter of 2019, we exited a portion of our Lake Oswego, Oregon corporate office resulting in a \$0.7 million lease impairment charge on the related operating lease right-of-use asset and leasehold improvements and \$0.2 million of accelerated depreciation on related furniture and fixtures. The lease impairment charge was recognized in accordance with ASC 842, Leases, which we adopted on a modified retrospective basis on J

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January 1, 2019. See Note 2 "Basis of Presentation and Significant Accounting Policies" and Note 3 "New Accounting Pronouncements" for additional information on our adoption of ASC 842. See Note 5 "Leases" for additional information on the long-lived asset impairment test performed in the first quarter of 2019. Additionally, we recognized a \$0.2 million restructuring charge in the first quarter of 2019 related to workforce reductions in our corporate operations. The \$0.7 million restructuring charge incurred in the first three months of 2018 primarily related to updated lease assumptions for our San Francisco office vacated in the second quarter of 2017, which was accounted for in accordance with ASC 840, Leases.

The table below sets forth the changes in the carrying amount of our restructuring charge liability by restructuring type for the three months ended March 31, 2019.

| | Employee Costs | Office Space Reductions | Total |
|------------------------------------|-------------------|-------------------------------|----------|
| Balance as of December 31, 2018 | \$ 443 | \$ 2,468 | \$2,911 |
| Adoption of ASC 842 ⁽¹⁾ | — | (1,119) | (1,119) |
| Balance as of January 1, 2019 | 443 | 1,349 | 1,792 |
| Additions ⁽²⁾ | 247 | 289 | 536 |
| Payments | (435) | (371) | (806) |
| Adjustments ⁽³⁾ | (2) | 65 | 63 |
| Non-cash items | — | (249) | (249) |
| Balance as of March 31, 2019 | \$ 253 | \$ 1,083 | \$1,336 |

Upon adoption of ASC 842 on January 1, 2019, we reclassified the restructuring charge liabilities, which represented the present value of remaining lease payments, net of estimated sublease income, for vacated office spaces from restructuring charge liabilities to operating lease right-of-use assets. See Note 3 "New Accounting Pronouncements" for additional information on the impact of adoption.

Additions for the three months ended March 31, 2019 excludes the \$0.7 million lease impairment charge recognized as restructuring charges on our consolidated statement of operations. See Note 5 "Leases" within the notes to our consolidated financial statements for additional information on the long-lived asset impairment test performed in the first quarter of 2019.

Adjustments for the three months ended March 31, 2019 includes restructuring charges of \$0.1 million related to updated operating expense assumptions for vacated office spaces directly related to discontinued operations.

As of March 31, 2019, our restructuring charge liability related to office space reductions of \$1.1 million represented the present value of the remaining estimated operating expense payments for vacated office spaces, primarily in Chicago, Illinois; Washington, D.C.; and Middleton, Wisconsin. This restructuring charge liability is included as a component of accrued expenses and other current liabilities and deferred compensation and other liabilities. All of the \$0.3 million restructuring charge liability related to employee costs at March 31, 2019 is expected to be paid in the next 12 months. The restructuring charge liability related to employee costs is included as a component of accrued payroll and related benefits.

10. Derivative Instrument and Hedging Activity

On June 22, 2017, we entered into a forward interest rate swap agreement effective August 31, 2017 and ending August 31, 2022, with a notional amount of \$50.0 million. We entered into this derivative instrument to hedge against the interest rate risks of our variable-rate borrowings. 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 1.900%.

We recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. We have designated this derivative instrument as a cash flow hedge. Therefore, changes in the fair value of the derivative instrument are recorded to other comprehensive income (“OCI”) and reclassified into interest expense upon settlement. As of March 31, 2019, it was anticipated that \$0.2 million of the gains, net of tax, currently recorded in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

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The table below sets forth additional information relating to the interest rate swap designated as a cash flow hedging instrument as of March 31, 2019 and December 31, 2018.

| Balance Sheet Location | Fair Value (Derivative Asset and Liability) | |
|---|---|----------------------|
| | March 31, 2019 | December 31, 2018 |
| Prepaid expenses and other current assets | \$ 240 | \$ 302 |
| Other non-current assets | \$ 192 | \$ 451 |

All of our 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 our policy to record all derivative assets and liabilities on a gross basis on our consolidated balance sheet.

We do not use derivative instruments for trading or other speculative purposes. Refer to Note 12 “Other Comprehensive Income (Loss)” for additional information on our derivative instrument.

11. Fair Value of Financial Instruments

Certain of our assets and liabilities are measured at fair value. Fair value is defined 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. GAAP 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. |

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The table below sets forth our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018.

| | Level 1 | Level 2 | Level 3 | Total |
|--|------------|----------|----------|----------|
| March 31, 2019 | | | | |
| Assets: | | | | |
| Interest rate swap | \$ — | \$432 | \$— | \$432 |
| Convertible debt investment | — | — | 54,038 | 54,038 |
| Deferred compensation assets | — | 23,918 | — | 23,918 |
| Total assets | \$ — | \$24,350 | \$54,038 | \$78,388 |
| Liabilities: | | | | |
| Contingent consideration for business acquisitions | \$ — | \$— | \$11,129 | \$11,129 |
| Total liabilities | \$ — | \$— | \$11,129 | \$11,129 |
| December 31, 2018 | | | | |
| Assets: | | | | |
| Interest rate swap | \$ — | \$753 | \$— | \$753 |
| Convertible debt investment | — | — | 50,429 | 50,429 |
| Deferred compensation assets | — | 18,205 | — | 18,205 |
| Total assets | \$ — | \$18,958 | \$50,429 | \$69,387 |
| Liabilities: | | | | |
| Contingent consideration for business acquisitions | \$ — | \$— | \$11,441 | \$11,441 |
| Total liabilities | \$ — | \$— | \$11,441 | \$11,441 |

Interest rate swap: The fair value of our 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 a discount rate reflecting the risks involved.

Convertible debt investment: In 2014 and 2015, we invested \$27.9 million, in the form of zero coupon convertible debt, in Shorelight Holdings, LLC (“Shorelight”), the parent company of Shorelight Education, a U.S.-based company that partners with leading universities to increase access to and retention of international students, boost institutional growth, and enhance an institution’s global footprint. The notes will mature on July 1, 2020, unless converted earlier. To determine the appropriate accounting treatment for our investment, we performed a variable interest entity (“VIE”) analysis and concluded that Shorelight does not meet the definition of a VIE. We also reviewed the characteristics of our investment to confirm that the convertible notes are not in-substance common stock that would warrant equity method accounting. After we reviewed all of the terms of the investment, we concluded the appropriate accounting treatment to be that of an available-for-sale debt security.

The convertible debt investment is carried at fair value with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income. We estimate the fair value of our investment using a Monte Carlo simulation model, cash flow projections discounted at a risk-adjusted rate, and certain assumptions related to equity volatility and applicable holding period, all of which are Level 3 inputs. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of the investment, which would result in different impacts to our consolidated balance sheet and comprehensive income. Actual results may differ from our estimates. The fair value of the convertible debt investment is recorded in long-term investment on our consolidated balance sheets.

The table below sets forth the changes in the balance of the convertible debt investment for the three months ended March 31, 2019.

| | |
|---|-------------|
| | Convertible |
| | Debt |
| | Investment |
| Balance as of December 31, 2018 | \$ 50,429 |
| Change in fair value of convertible debt investment | 3,609 |
| Balance as of March 31, 2019 | \$ 54,038 |

Deferred compensation assets: We have a non-qualified deferred compensation plan (the "Plan") for the members of our board of directors and a select group of our employees. The deferred compensation liability is funded by the Plan assets, which consist of life insurance policies maintained within a trust. The cash surrender value of the life insurance policies approximates fair value and is based on third-party broker

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statements which provide the fair value of the life insurance policies' underlying investments, which are Level 2 inputs. The cash surrender value of the life insurance policies is invested primarily in mutual funds. The Plan assets are included in other non-current assets on our consolidated balance sheets. Realized and unrealized gains (losses) from the deferred compensation assets are recorded to other income (expense), net in our consolidated statements of operations.

Contingent consideration for business acquisitions: We estimate the fair value of acquisition-related contingent consideration using either a probability-weighted assessment of the specific financial performance targets being achieved or a Monte Carlo simulation model, as appropriate. These fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 inputs. The significant unobservable inputs used in the fair value measurements of our contingent consideration are our measures of the estimated payouts based on internally generated financial projections on a probability-weighted basis and discount rates, which typically reflect a risk-free rate. The fair value of the contingent consideration is reassessed quarterly based on assumptions used in our latest projections and input provided by practice leaders and management. Any change in the fair value estimate is recorded in our consolidated statement of operations for that period. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of our contingent consideration liability, which would result in different impacts to our consolidated balance sheets and consolidated statements of operations. Actual results may differ from our estimates. The table below sets forth the changes in the balance of the contingent consideration for business acquisitions for the three months ended March 31, 2019.

| | Contingent Consideration for Business Acquisitions |
|---|---|
| Balance as of December 31, 2018 | \$ 11,441 |
| Remeasurement of contingent consideration for business acquisitions | (391) |
| Unrealized loss due to foreign currency translation | 79 |
| Balance as of March 31, 2019 | \$ 11,129 |

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

Senior Secured Credit Facility

The carrying value of our borrowings outstanding under our senior secured credit facility is stated at cost. Our carrying value approximates fair value, using Level 2 inputs, as the senior secured credit facility bears interest at variable rates based on current market rates as set forth in the Amended Credit Agreement. Refer to Note 8 "Financing Arrangements" for additional information on our senior secured credit facility.

Promissory Note due 2024

The carrying value of our promissory note due 2024 is stated at cost. Our carrying value approximates fair value, using Level 2 inputs, as the promissory note bears interest at rates based on current market rates as set forth in the terms of the promissory note. Refer to Note 8 "Financing Arrangements" for additional information on our promissory note due 2024.

Convertible Notes

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

| | March 31, 2019 | | December 31, 2018 | |
|---|--------------------|----------------------------|--------------------|----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| 1.25% convertible senior notes due 2019 | \$245,051 | \$246,190 | \$242,617 | \$242,940 |

The differences between the \$250 million principal amount of the Convertible Notes and the carrying amounts shown above represent the unamortized debt discount and issuance costs. As of March 31, 2019 and December 31, 2018, the carrying value of the equity component of \$39.3 million was unchanged from the date of issuance. Refer to Note 8 “Financing Arrangements” for additional information on our Convertible Notes. The estimated fair value of the Convertible Notes was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market, which is a Level 2 input, on the last day of trading for the quarters ended March 31, 2019 and December 31, 2018.

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Based on the closing price of our common stock of \$47.22 on March 31, 2019, the if-converted value of the Convertible Notes was less than the principal amount.

Cash and cash equivalents are stated at cost, which approximates fair market value. The carrying values of all other financial instruments not described above reasonably approximate fair market value due to the nature of the financial instruments and the short-term maturity of these items.

12. Other Comprehensive Income (Loss)

The table below sets forth the components of other comprehensive income (loss), net of tax, for the three months ended March 31, 2019 and 2018.

| | Three Months Ended March 31, 2019 | | | Three Months Ended March 31, 2018 | | |
|---|--------------------------------------|-----------------------------|-----------------|--------------------------------------|-----------------------------|-----------------|
| | Before Taxes | Tax (Expense) Benefit | Net of Taxes | Before Taxes | Tax (Expense) Benefit | Net of Taxes |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | \$316 | \$ — | \$316 | \$34 | \$ — | \$34 |
| Unrealized gain on investment | \$3,609 | \$ (952) | \$2,657 | \$2,927 | \$ (761) | \$2,166 |
| Unrealized gain (loss) on cash flow hedges: | | | | | | |
| Change in fair value | \$(247) | \$ 65 | \$(182) | \$545 | \$(141) | \$404 |
| Reclassification adjustments into earnings | (74) | 19 | (55) | 38 | (10) | 28 |
| Net unrealized gain (loss) | \$(321) | \$ 84 | \$(237) | \$583 | \$(151) | \$432 |
| Other comprehensive income | \$3,604 | \$ (868) | \$2,736 | \$3,544 | \$ (912) | \$2,632 |

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

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

| | Foreign Currency Translation | Available-for-Sale Investment | Cash Flow Hedges | Total |
|----------------------------|---------------------------------|----------------------------------|------------------------|----------|
| Balance, December 31, 2018 | \$ (665) | \$ 16,584 | \$ 576 | \$16,495 |
| Current period change | 316 | 2,657 | (237) | 2,736 |
| Balance, March 31, 2019 | \$ (349) | \$ 19,241 | \$ 339 | \$19,231 |

13. Income Taxes

For the three months ended March 31, 2019, our effective tax rate was 29.0% as we recognized income tax expense from continuing operations of \$1.4 million on income from continuing operations of \$4.7 million. The effective tax rate of 29.0% was less favorable than the statutory rate, inclusive of state income taxes, of 26.4% primarily due to \$0.5 million of foreign losses with no tax benefit, which had an unfavorable impact of 2.9% on the effective tax rate; and \$0.1 million of additional tax expense related to disallowed executive compensation deductions, which had an unfavorable impact of 1.8% on the effective tax rate. These unfavorable adjustments to our effective tax rate were partially offset by \$0.1 million of discrete tax benefit for share-based compensation awards that vested during the first quarter of 2019 and which had a favorable impact of 1.8% on the effective tax rate.

For the three months ended March 31, 2018, our effective tax rate was (14.7)% as we recognized income tax expense from continuing operations of \$0.4 million on a loss from continuing operations of \$2.8 million. The effective tax rate of (14.7)% was less favorable than the statutory rate, inclusive of state income taxes, of 26.0% primarily due to discrete tax expense for share-based compensation awards that vested during the first quarter of 2018 and which had an unfavorable impact of 43.7% on the effective tax rate.

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14. Commitments, Contingencies and Guarantees

Litigation

From time to time, we are involved in legal proceedings and litigation arising in the ordinary course of business. As of the date of this Quarterly Report on Form 10-Q, we are not a party to any 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 \$1.6 million were outstanding at both March 31, 2019 and December 31, 2018, primarily to support certain office lease obligations.

In connection with certain business acquisitions, we may be required to pay post-closing consideration to the sellers if specific financial performance targets are met over a number of years as specified in the related purchase agreements. As of March 31, 2019 and December 31, 2018, the total estimated fair value of our contingent consideration liabilities was \$11.1 million and \$11.4 million, respectively.

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

15. Segment Information

Segments are defined as components of a company that engage in business activities from which they may earn revenues and incur expenses, and for which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. Our chief operating decision maker, who is our chief executive officer, manages the business under three operating segments, which are our reportable segments: Healthcare, Business Advisory, and Education.

Healthcare

Our Healthcare segment has a depth of expertise in care transformation, financial and operational excellence, technology and analytics, and leadership development. We serve national and regional hospitals and integrated health systems, academic medical centers, community hospitals, and medical groups. Our solutions help clients evolve and adapt to the rapidly changing healthcare environment and achieve growth, optimize performance, enhance profitability, improve quality and clinical outcomes, align leaders, improve organizational culture, and drive physician, patient, and employee engagement across the enterprise to deliver better consumer outcomes.

We help organizations transform and innovate their delivery model to focus on patient wellness by improving quality outcomes, minimizing care variation and fundamentally improving patient and population health. Our consultants partner with clients to help build and sustain today's business to invest in the future by reducing complexity, improving operational efficiency and growing market share. We enable the healthcare of the future by identifying, integrating and optimizing technology investments to collect data that transforms care delivery and improves patient outcomes. We also develop future leaders capable of driving meaningful operational and organizational change and who transform the consumer experience.

Business Advisory

Our Business Advisory segment provides services to large and middle market organizations, not-for-profit organizations, lending institutions, law firms, investment banks and private equity firms. We assist clients in a broad range of industries and across the spectrum from healthy, well-capitalized companies to organizations in transition, as well as creditors, equity owners, and other key constituents. Our Business Advisory professionals resolve complex

business issues and enhance client enterprise value through a suite of services including capital advisory, transaction advisory, operational improvement, restructuring and turnaround, valuation, and dispute advisory. Our Enterprise Solutions and Analytics professionals deliver technology and analytic solutions that enable organizations to manage and optimize their financial performance, operational efficiency, and client or stakeholder experience. Our Strategy and Innovation professionals collaborate with clients across a range of industries to identify new growth opportunities, build new ventures and capabilities, and accelerate organizational change. Our Life Sciences professionals provide strategic

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solutions to help pharmaceutical, medical device, and biotechnology companies deliver more value to patients, payers, and providers, and comply with regulations.

Education

Our Education segment provides consulting and technology solutions to higher education institutions and academic medical centers. We partner with clients to address challenges relating to business and technology strategy, financial management, operational and organizational effectiveness, research administration, and regulatory compliance. Our institutional strategy, market research, budgeting and financial management, business operations and student life cycle management solutions align missions with business priorities, improve quality and reduce costs institution-wide. Our student solutions improve attraction, retention and graduation rates, increase student satisfaction and help generate quality outcomes. Our technology strategy, enterprise applications, and analytic solutions transform and optimize operations, deliver time and cost savings, and enhance the student experience. Our research enterprise solutions assist clients in identifying and implementing institutional research strategy, optimizing clinical research operations, improving financial management and cost reimbursement, improving service to faculty, and mitigating risk compliance.

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative expenses that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include costs for corporate office support, certain office facility costs, costs relating to accounting and finance, human resources, legal, marketing, information technology, and company-wide business development functions, as well as costs related to overall corporate management. The table below sets forth information about our operating segments for the three months ended March 31, 2019 and 2018, along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements.

| | Three Months Ended March 31, | | | |
|--|---------------------------------|---|-----------|---|
| | 2019 | | 2018 | |
| Healthcare: | | | | |
| Revenues | \$93,682 | | \$89,895 | |
| Operating income | \$27,851 | | \$24,460 | |
| Segment operating income as a percentage of segment revenues | 29.7 | % | 27.2 | % |
| Business Advisory: | | | | |
| Revenues | \$58,806 | | \$55,895 | |
| Operating income | \$9,581 | | \$8,998 | |
| Segment operating income as a percentage of segment revenues | 16.3 | % | 16.1 | % |
| Education: | | | | |
| Revenues | \$51,957 | | \$47,889 | |
| Operating income | \$12,618 | | \$11,425 | |
| Segment operating income as a percentage of segment revenues | 24.3 | % | 23.9 | % |
| Total Company: | | | | |
| Revenues | \$204,445 | | \$193,679 | |
| Reimbursable expenses | 18,617 | | 17,619 | |
| Total revenues and reimbursable expenses | \$223,062 | | \$211,298 | |
| Segment operating income | \$50,050 | | \$44,883 | |

Items not allocated at the segment level:

| | | |
|---|---------|------------|
| Other operating expenses | 36,578 | 32,928 |
| Other losses (gains), net | (456) | 830 |
| Depreciation and amortization | 7,172 | 8,803 |
| Other expense, net | 2,041 | 5,131 |
| Income (loss) from continuing operations before taxes | \$4,715 | \$(2,809) |

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The following table illustrates the disaggregation of revenues by billing arrangements, employee types, and timing of revenue recognition, including a reconciliation of the disaggregated revenues to revenues from our three operating segments for the three months ended March 31, 2019 and 2018.

| | Three Months Ended March 31, 2019 | | | |
|---|-----------------------------------|----------------------|-----------|-----------|
| | Healthcare | Business Advisory | Education | Total |
| Billing Arrangements | | | | |
| Fixed-fee | \$63,584 | \$ 21,672 | \$ 12,383 | \$97,639 |
| Time and expense | 12,763 | 35,309 | 35,358 | 83,430 |
| Performance-based | 11,810 | 664 | — | 12,474 |
| Software support, maintenance and subscriptions | 5,525 | 1,161 | 4,216 | 10,902 |
| Total | \$93,682 | \$ 58,806 | \$ 51,957 | \$204,445 |

| | | | | |
|---|----------|-----------|-----------|-----------|
| Employee Type ⁽¹⁾ | | | | |
| Revenue generated by full-time billable consultants | \$64,818 | \$ 57,094 | \$ 46,007 | \$167,919 |
| Revenue generated by full-time equivalents | 28,864 | 1,712 | 5,950 | 36,526 |
| Total | \$93,682 | \$ 58,806 | \$ 51,957 | \$204,445 |

| | | | | |
|---------------------------------------|----------|-----------|-----------|-----------|
| Timing of Revenue Recognition | | | | |
| Revenue recognized over time | \$91,642 | \$ 58,806 | \$ 51,711 | \$202,159 |
| Revenue recognized at a point in time | 2,040 | — | 246 | 2,286 |
| Total | \$93,682 | \$ 58,806 | \$ 51,957 | \$204,445 |

| | Three Months Ended March 31, 2018 | | | |
|---|-----------------------------------|----------------------|-----------|-----------|
| | Healthcare | Business Advisory | Education | Total |
| Billing Arrangements | | | | |
| Fixed-fee | \$60,269 | \$ 22,420 | \$ 11,306 | \$93,995 |
| Time and expense | 12,789 | 31,337 | 33,442 | 77,568 |
| Performance-based | 10,191 | 909 | — | 11,100 |
| Software support, maintenance and subscriptions | 6,646 | 1,229 | 3,141 | 11,016 |
| Total | \$89,895 | \$ 55,895 | \$ 47,889 | \$193,679 |

| | | | | |
|---|----------|-----------|-----------|-----------|
| Employee Type ⁽¹⁾ | | | | |
| Revenue generated by full-time billable consultants | \$59,273 | \$ 53,416 | \$ 41,632 | \$154,321 |
| Revenue generated by full-time equivalents | 30,622 | 2,479 | 6,257 | 39,358 |
| Total | \$89,895 | \$ 55,895 | \$ 47,889 | \$193,679 |

| | | | | |
|---------------------------------------|----------|-----------|-----------|-----------|
| Timing of Revenue Recognition | | | | |
| Revenue recognized over time | \$88,341 | \$ 55,895 | \$ 46,585 | \$190,821 |
| Revenue recognized at a point in time | 1,554 | — | 1,304 | 2,858 |
| Total | \$89,895 | \$ 55,895 | \$ 47,889 | \$193,679 |

(1) Full-time billable consultants consist of our full-time professionals who provide consulting services to our clients and are billable to our clients based on the number of hours worked. Full-time equivalent professionals consist of leadership coaches and their support staff within our Studer Group solution, consultants who work variable

schedules as needed by our clients, and full-time employees who provide software support and maintenance services to our clients.

At March 31, 2019 and December 31, 2018, no single client accounted for greater than 10% of our combined receivables and unbilled services balances. During the three months ended March 31, 2019 and 2018, no single client generated greater than 10% of our consolidated revenues.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, the terms “Huron,” “Company,” “we,” “us” and “our” refer to Huron Consulting Group Inc. and its subsidiaries.

Statements in this Quarterly Report on Form 10-Q that are not historical in nature, including those concerning the Company’s current expectations about its future 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,” “provides,” “anticipates,” “assumes,” “can,” “will,” “meets,” “could,” “likely,” “intends,” “might,” “predicts,” “seeks,” “would,” “believes,” “estimates,” “guidance,” or “outlook,” or similar expressions. These forward-looking statements reflect our current expectations about our future requirements and needs, results, levels of activity, performance, or achievements. Some of the factors that could cause actual results to differ materially from the forward-looking statements contained herein include, without limitation: failure to achieve expected utilization rates, billing rates, and the number of revenue-generating professionals; inability to expand or adjust our service offerings in response to market demands; our dependence on renewal of client-based services; dependence on new business and retention of current clients and qualified personnel; failure to maintain third-party provider relationships and strategic alliances; inability to license technology to and from third parties; the impairment of goodwill; various factors related to income and other taxes; difficulties in successfully integrating the businesses we acquire and achieving expected benefits from such acquisitions; risks relating to privacy, information security, and related laws and standards; and a general downturn in market conditions. These forward-looking statements involve known and unknown risks, uncertainties, and other factors, including, among others, those described under Item 1A. “Risk Factors,” in our Annual Report on Form 10-K for the year ended December 31, 2018 that may cause actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. We disclaim any obligation to update or revise any forward-looking statements as a result of new information or future events, or for any other reason.

OVERVIEW

Our Business

Huron is a global consultancy that helps clients drive growth, enhance performance and sustain leadership in the markets they serve. We partner with clients to develop strategies and implement solutions that enable the transformative change our clients need to own their future.

We provide professional services through three operating segments: Healthcare, Business Advisory, and Education.

Healthcare

Our Healthcare segment has a depth of expertise in care transformation, financial and operational excellence, technology and analytics, and leadership development. We serve national and regional hospitals and integrated health systems, academic medical centers, community hospitals, and medical groups. Our solutions help clients evolve and adapt to the rapidly changing healthcare environment and achieve growth, optimize performance, enhance profitability, improve quality and clinical outcomes, align leaders, improve organizational culture, and drive physician, patient, and employee engagement across the enterprise to deliver better consumer outcomes.

We help organizations transform and innovate their delivery model to focus on patient wellness by improving quality outcomes, minimizing care variation and fundamentally improving patient and population health. Our consultants partner with clients to help build and sustain today’s business to invest in the future by reducing complexity, improving operational efficiency and growing market share. We enable the healthcare of the future by identifying, integrating and optimizing technology investments to collect data that transforms care delivery and improves patient outcomes.

We also develop future leaders capable of driving meaningful operational and organizational change and who transform the consumer experience.

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Our Business Advisory segment provides services to large and middle market organizations, not-for-profit organizations, lending institutions, law firms, investment banks and private equity firms. We assist clients in a broad range of industries and across the spectrum from healthy, well-capitalized companies to organizations in transition, as well as creditors, equity owners, and other key constituents. Our Business Advisory professionals resolve complex business issues and enhance client enterprise value through a suite of services including capital advisory, transaction advisory, operational improvement, restructuring and turnaround, valuation, and dispute advisory. Our Enterprise Solutions and Analytics professionals deliver technology and analytic solutions that enable organizations to manage and optimize their financial performance, operational efficiency, and client or stakeholder experience. Our Strategy and Innovation professionals collaborate with clients across a range of industries to identify new growth opportunities, build new ventures and capabilities, and accelerate organizational change. Our Life Sciences professionals provide strategic solutions to help pharmaceutical, medical device, and biotechnology companies deliver more value to patients, payers, and providers, and comply with regulations.

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Education

Our Education segment provides consulting and technology solutions to higher education institutions and academic medical centers. We partner with clients to address challenges relating to business and technology strategy, financial management, operational and organizational effectiveness, research administration, and regulatory compliance. Our institutional strategy, market research, budgeting and financial management, business operations and student life cycle management solutions align missions with business priorities, improve quality and reduce costs institution-wide. Our student solutions improve attraction, retention and graduation rates, increase student satisfaction and help generate quality outcomes. Our technology strategy, enterprise applications, and analytic solutions transform and optimize operations, deliver time and cost savings, and enhance the student experience. Our research enterprise solutions assist clients in identifying and implementing institutional research strategy, optimizing clinical research operations, improving financial management and cost reimbursement, improving service to faculty, and mitigating risk compliance.

Huron is a Platinum level member of the Oracle PartnerNetwork, an Oracle Cloud Premier Partner within North America, a Workday Services Partner, and a Gold level consulting partner with Salesforce.com.

How We Generate Revenues

A large portion of our revenues is generated by our full-time consultants who provide consulting services to our clients and are billable to our clients based on the number of hours worked. A smaller portion of our revenues is generated by our other professionals, also referred to as full-time equivalents, some of whom work variable schedules as needed by our clients. Full-time equivalent professionals consist of our leadership coaches and their support staff from our Studer Group solution, specialized finance and operational consultants, and our employees who provide software support and maintenance services to our clients. 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. Revenues generated by our coaches are largely dependent on the number of coaches we employ and the total value, scope, and terms of the consulting contracts under which they provide services, which are primarily fixed-fee contracts.

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

In fixed-fee billing arrangements, we agree to a pre-established fee in exchange for a predetermined set of professional services. We set the fees based on our estimates of the costs and timing for completing the engagements. It is the client's expectation in these engagements that the pre-established fee will not be exceeded except in mutually agreed upon circumstances. We generally recognize revenues under fixed-fee billing arrangements using a proportionate performance approach, which is based on work completed to-date versus our estimates of the total services to be provided under the engagement. Contracts within our Studer Group solution include fixed-fee partner contracts with multiple performance obligations, which primarily consist of coaching services, as well as speaking engagements, conferences, publications and software products ("Partner Contracts"). Revenues for coaching services and software products are generally recognized on a straight-line basis over the length of the contract. All other revenues under Partner Contracts, including speaking engagements, conferences and publications, are recognized at the time the goods or services are provided.

Fixed-fee arrangements also include software licenses for our revenue cycle management software and research administration and compliance software. Licenses for our revenue cycle management software are sold only as a component of our consulting projects, and the services we provide are essential to the functionality of the software.

Therefore, revenues from these software licenses are recognized over the term of the related consulting services contract. License revenue from our research administration and compliance software is generally recognized in the month in which the software is delivered.

Fixed-fee engagements represented 47.8% and 48.5% of our revenues for the three months ended March 31, 2019 and 2018, respectively.

Time-and-expense billing arrangements require the client to pay based on the number of hours worked by our revenue-generating professionals at agreed upon rates. Time-and-expense arrangements also include certain speaking engagements, conferences and publications purchased by our clients outside of Partner Contracts within our Studer Group solution. We recognize revenues under time-and-expense billing arrangements as the related services or publications are provided. Time-and-expense engagements represented 40.8% and 40.1% of our revenues for the three months ended March 31, 2019 and 2018, respectively.

In performance-based fee billing arrangements, fees are tied to the attainment of contractually defined objectives. We enter into performance-based engagements in essentially two forms. First, we generally earn fees that are directly related to the savings formally acknowledged by the client as a result of adopting our recommendations for improving operational and cost effectiveness in the areas we review. Second, we have performance-based engagements in which we earn a success fee when and if certain predefined outcomes occur. Often, performance-based fees supplement our

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fixed-fee or time-and-expense engagements. We recognize revenues under performance-based billing arrangements by estimating the amount of variable consideration that is probable of being earned and recognizing that estimate over the length of the contract using a proportionate performance approach. Performance-based fee revenues represented 6.1% and 5.7% of our revenues for the three months ended March 31, 2019 and 2018, respectively. The level of performance-based fees earned may vary based on our clients' risk sharing preferences and the mix of services we provide.

Clients that have purchased one of our software licenses can pay an annual fee for software support and maintenance. We also generate subscription revenue from our cloud-based analytic tools and solutions. Software support, maintenance and subscription revenues are recognized ratably over the support or subscription period. These fees are billed in advance and included in deferred revenues until recognized. Software support, maintenance and subscription revenues represented 5.3% and 5.7% of our revenues for the three months ended March 31, 2019 and 2018, respectively.

Our quarterly results are impacted principally by our full-time consultants' utilization rate, the bill rates we charge our clients, 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.

Business Strategy, Opportunities and Challenges

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

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

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RESULTS OF OPERATIONS

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

| Segment and Consolidated Operating Results (in thousands, except per share amounts): | Three Months Ended March 31, | | | |
|---|---------------------------------|---|-----------|---|
| | 2019 | | 2018 | |
| Healthcare: | | | | |
| Revenues | \$93,682 | | \$89,895 | |
| Operating income | \$27,851 | | \$24,460 | |
| Segment operating income as a percentage of segment revenues | 29.7 | % | 27.2 | % |
| Business Advisory: | | | | |
| Revenues | \$58,806 | | \$55,895 | |
| Operating income | \$9,581 | | \$8,998 | |
| Segment operating income as a percentage of segment revenues | 16.3 | % | 16.1 | % |
| Education: | | | | |
| Revenues | \$51,957 | | \$47,889 | |
| Operating income | \$12,618 | | \$11,425 | |
| Segment operating income as a percentage of segment revenues | 24.3 | % | 23.9 | % |
| Total Company: | | | | |
| Revenues | \$204,445 | | \$193,679 | |
| Reimbursable expenses | 18,617 | | 17,619 | |
| Total revenues and reimbursable expenses | \$223,062 | | \$211,298 | |
| Statements of Operations reconciliation: | | | | |
| Segment operating income | \$50,050 | | \$44,883 | |
| Items not allocated at the segment level: | | | | |
| Other operating expenses | 36,578 | | 32,928 | |
| Other losses (gains), net | (456 |) | 830 | |
| Depreciation and amortization | 7,172 | | 8,803 | |
| Operating income | 6,756 | | 2,322 | |
| Other expense, net | (2,041 |) | (5,131 |) |
| Income (loss) from continuing operations before taxes | 4,715 | | (2,809 |) |
| Income tax expense | 1,365 | | 413 | |
| Net income (loss) from continuing operations | \$3,350 | | \$(3,222 |) |
| Earnings (loss) per share from continuing operations: | | | | |
| Basic | \$0.15 | | \$(0.15 |) |
| Diluted | \$0.15 | | \$(0.15 |) |

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| | Three Months Ended March 31, | |
|--|------------------------------------|--------|
| | 2019 | 2018 |
| Other Operating Data: | | |
| Number of full-time billable consultants (at period end) ⁽¹⁾ : | | |
| Healthcare | 836 | 792 |
| Business Advisory | 864 | 783 |
| Education | 649 | 568 |
| Total | 2,349 | 2,143 |
| Average number of full-time billable consultants (for the period) ⁽¹⁾ : | | |
| Healthcare | 819 | 780 |
| Business Advisory | 839 | 784 |
| Education | 631 | 562 |
| Total | 2,289 | 2,126 |
| Full-time billable consultant utilization rate ⁽²⁾ : | | |
| Healthcare | 78.6 % | 81.3 % |
| Business Advisory | 73.1 % | 69.1 % |
| Education | 76.4 % | 75.0 % |
| Total | 75.9 % | 75.1 % |
| Full-time billable consultant average billing rate per hour ⁽³⁾ : | | |
| Healthcare | \$224 | \$202 |
| Business Advisory ⁽⁴⁾ | \$200 | \$209 |
| Education | \$204 | \$207 |
| Total ⁽⁴⁾ | \$210 | \$206 |
| Revenue per full-time billable consultant (in thousands): | | |
| Healthcare | \$79 | \$76 |
| Business Advisory | \$68 | \$68 |
| Education | \$73 | \$74 |
| Total | \$73 | \$73 |
| Average number of full-time equivalents (for the period) ⁽⁵⁾ : | | |
| Healthcare | 223 | 208 |
| Business Advisory | 8 | 16 |
| Education | 36 | 40 |
| Total | 267 | 264 |
| Revenue per full-time equivalent (in thousands): | | |
| Healthcare | \$129 | \$148 |
| Business Advisory | \$206 | \$153 |
| Education | \$166 | \$155 |
| Total | \$137 | \$149 |

(1) Consists of our full-time professionals who provide consulting services and generate revenues based on the number of hours worked.

Utilization rate for our full-time billable consultants is calculated by dividing the number of hours our full-time (2) billable consultants worked on client assignments during a period by the total available working hours for these consultants during the same period, assuming a forty-hour work week, less paid holidays and vacation days.

Average billing rate per hour for our full-time billable consultants is calculated by dividing revenues for a period (3) by the number of hours worked on client assignments during the same period.

Beginning in the third quarter of 2018, the average billing rate per hour excludes the number of hours charged on (4) internal assignments by consultants within Huron Eurasia India to provide a more meaningful average billing rate charged to external clients. Prior year periods have been revised for consistent presentation.

Consists of leadership coaches and their support staff within the Studer Group solution, consultants who work (5) variable schedules as needed by our clients, and full-time employees who provide software support and maintenance services to our clients.

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Non-GAAP Measures

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

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

The reconciliations of these financial measures from GAAP to non-GAAP are as follows (in thousands, except per share amounts):

| | Three Months Ended March 31, | | | |
|---|------------------------------------|-----------|--|---|
| | 2019 | 2018 | | |
| Revenues | \$204,445 | \$193,679 | | |
| Net income (loss) from continuing operations | \$3,350 | \$(3,222) | | |
| Add back: | | | | |
| Income tax expense | 1,365 | 413 | | |
| Interest expense, net of interest income | 4,258 | 4,986 | | |
| Depreciation and amortization | 8,289 | 10,021 | | |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | 17,262 | 12,198 | | |
| Add back: | | | | |
| Restructuring charges | 1,275 | 712 | | |
| Other losses (gains), net | (456) |) 830 | | |
| Foreign currency transaction gains, net | (82) |) (53) | | |
| Adjusted EBITDA | \$17,999 | \$13,687 | | |
| Adjusted EBITDA as a percentage of revenues | 8.8 | % 7.1 | | % |
| | Three Months Ended March 31, | | | |
| | 2019 | 2018 | | |
| Net income (loss) from continuing operations | \$3,350 | \$(3,222) | | |
| Weighted average shares - diluted | 22,311 | 21,592 | | |
| Diluted earnings (loss) per share from continuing operations | \$0.15 | \$(0.15) | | |
| Add back: | | | | |
| Amortization of intangible assets | 4,517 | 6,303 | | |

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| | | |
|--|----------|----------|
| Restructuring charges | 1,275 | 712 |
| Other losses (gains), net | (456) | 830 |
| Non-cash interest on convertible notes | 2,120 | 2,021 |
| Tax effect | (1,953) | (2,565) |
| Tax expense related to the enactment of Tax Cut and Jobs Act of 2017 | — | 132 |
| Total adjustments, net of tax | 5,503 | 7,433 |
| Adjusted net income from continuing operations | \$8,853 | \$4,211 |
| Adjusted weighted average shares - diluted | 22,311 | 21,813 |
| Adjusted diluted earnings per share from continuing operations | \$0.40 | \$0.19 |

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

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

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

Other losses (gains), net: We have excluded the effects of other losses (gains), net which primarily consist of remeasurement losses (gains) related to contingent acquisition liabilities to permit comparability with periods that were not impacted by these items.

Non-cash interest on convertible notes: We incur non-cash interest expense relating to the implied value of the equity conversion component of our Convertible Notes. The value of the equity conversion component is treated as a debt discount and amortized to interest expense over the life of the Convertible Notes using the effective interest rate method. We exclude this non-cash interest expense that does not represent cash interest payments from the calculation of adjusted net income from continuing operations as management believes that this non-cash expense is not indicative of the ongoing performance of our business.

Foreign currency transaction gains, net: We have excluded the effect of foreign currency transaction losses and gains from the calculation of adjusted EBITDA because the amount of each loss or gain is significantly affected by timing and changes in foreign exchange rates.

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

Tax expense related to the enactment of Tax Cuts and Jobs Act of 2017 ("2017 Tax Reform"): We have excluded the impact of the 2017 Tax Reform, which was enacted in the fourth quarter of 2017. In the first quarter of 2018, we recorded an adjustment to our estimated one-time income tax expense related to the transition tax on accumulated foreign earnings. The exclusion of the 2017 Tax Reform impact permits comparability with periods that were not impacted by this item.

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

Adjusted weighted average shares - diluted: As we reported a net loss for the three months ended March 31, 2018, GAAP diluted weighted average shares outstanding equals the basic weighted average shares outstanding for that period. For the three months ended March 31, 2018, the non-GAAP adjustments described above resulted in adjusted net income from continuing operations. Therefore, we included the dilutive common stock equivalents in the calculation of adjusted diluted weighted average shares outstanding for that period.

Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Revenues

Revenues increased \$10.8 million, or 5.6%, to \$204.4 million for the first three months of 2019 from \$193.7 million for the first three months of 2018. Of the overall \$10.8 million increase in revenues, \$13.6 million was attributable to an increase in revenues from our full-time billable consultants, partially offset by a \$2.8 million decrease in revenues attributable to our full-time equivalents. The increase in full-time billable consultant revenues was attributable to strengthened demand for services in all of our segments, as discussed below in Segment Results; and reflected increases in the average number of full-time billable consultants, the consultant utilization rate, and the average billing

rate during the first three months of 2019 compared to the same prior year period. The decrease in full-time equivalent revenues was attributable to decreases in full-time equivalent revenues in all of our segments, as discussed below in Segment Results; and reflected an overall decrease in revenue per full-time equivalent, partially offset by an overall increase in the average number of full-time equivalents.

Total Direct Costs

Our total direct costs, including amortization of intangible assets and software development costs, increased \$4.9 million, or 3.7%, to \$138.9 million for the three months ended March 31, 2019, from \$134.0 million for the three months ended March 31, 2018. The overall \$4.9 million increase primarily related to a \$3.1 million increase in salaries and related expenses for our revenue-generating professionals, which was largely driven by increased headcount in our Education and Business Advisory segments, and a \$1.2 million increase in performance bonus expense for our revenue-generating professionals. As a percentage of revenues, our total direct costs decreased to 67.9% during the first three months of 2019 compared to 69.2% during the first three months of 2018 primarily due to revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals and a decrease in contractor expenses. These decreases to direct costs as a percentage of revenues were

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partially offset by increases in signing, retention and other bonus expense for our revenue-generating professionals and project costs, as percentages of revenues, for the first three months of 2019 compared to the same prior year period.

Total direct costs for the three months ended March 31, 2019 included \$1.1 million of amortization expense for internal software development costs and intangible assets, compared to \$1.2 million of amortization expense for the same prior year period. The \$0.1 million decrease in amortization expense was primarily attributable to certain intangible assets acquired in our Studer Group acquisition which were fully amortized, largely offset by an increase in amortization for internal software development costs. Intangible asset amortization included within direct costs primarily relates to technology and software, certain customer relationships, publishing content and customer contracts acquired in connection with our business acquisitions. See Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets.

Operating Expenses and Other Losses (Gains), Net

Selling, general and administrative expenses increased \$3.7 million, or 7.8%, to \$50.7 million in the three months ended March 31, 2019, from \$47.1 million in the three months ended March 31, 2018. The overall \$3.7 million increase was primarily related to a \$3.3 million increase in salaries and related expenses for our support personnel, a \$0.5 million increase in computer and related equipment expenses, and a \$0.4 million increase in share-based compensation expense for our support personnel. These increases were partially offset by a \$0.3 million decrease in accounting, tax and audit fees. As a percentage of revenues, selling, general and administrative expenses increased to 24.8% during the first three months of 2019 compared to 24.3% during the first three months of 2018, primarily due to the increase in salaries and related expenses for our support personnel, as a percentage of revenues.

Restructuring charges for the first three months of 2019 totaled \$1.3 million, compared to \$0.7 million for the first three months of 2018. During the first quarter of 2019, we exited a portion of our Lake Oswego, Oregon corporate office resulting in a \$0.7 million lease impairment charge on the related operating lease right-of-use ("ROU") asset and leasehold improvements and \$0.2 million of accelerated depreciation on related furniture and fixtures. The lease impairment charge was recognized in accordance with ASC 842, Leases, which we adopted on a modified retrospective basis on January 1, 2019. See Note 2 "Basis of Presentation and Significant Accounting Policies" and Note 3 "New Accounting Pronouncements" within the notes to our consolidated financial statements for additional information on our adoption of ASC 842. See Note 5 "Leases" within the notes to our consolidated financial statements for additional information on the long-lived asset impairment test performed in the first quarter of 2019. Additionally, we recognized a \$0.2 million restructuring charge in the first quarter of 2019 related to workforce reductions in our corporate operations. The \$0.7 million restructuring charge incurred in the first three months of 2018 primarily related to updated lease assumptions for our San Francisco office vacated in the second quarter of 2017, which was accounted for in accordance with ASC 840, Leases. See Note 9 "Restructuring Charges" within the notes to our consolidated financial statements for additional information on our restructuring charges.

Other losses (gains), net totaled a gain of \$0.5 million for the three months ended March 31, 2019, which primarily consisted of a \$0.4 million remeasurement gain to decrease the estimated fair value of our liabilities for contingent consideration payments related to business acquisitions. Other losses (gains), net totaled a loss of \$0.8 million for the three months ended March 31, 2018, which represented increases in the estimated fair value of our liabilities for contingent consideration payments related to business acquisitions. In connection with certain business acquisitions, we may be required to pay post-closing consideration to the sellers if specific financial performance targets are met over a number of years as specified in the related purchase agreements. See Note 11 "Fair Value of Financial Instruments" within the notes to our consolidated financial statements for additional information on the fair value of contingent consideration liabilities.

Depreciation and amortization expense decreased by \$1.6 million to \$7.2 million in the three months ended March 31, 2019, from \$8.8 million in the three months ended March 31, 2018. The decrease was primarily attributable to decreasing amortization expense of the trade name and customer relationships acquired in our Studer Group

acquisition as well as certain customer relationships acquired in other business acquisitions, due to the accelerated basis of amortization in prior periods. Intangible asset amortization included within operating expenses primarily relates to certain customer relationships, trade names and non-competition agreements acquired in connection with our business acquisitions. See Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets.

Operating Income

Operating income increased \$4.4 million to \$6.8 million in the first three months of 2019 from \$2.3 million in the first three months of 2018. Operating margin, which is defined as operating income expressed as a percentage of revenues, increased to 3.3% for the three months ended March 31, 2019, compared to 1.2% for the three months ended March 31, 2018. The increase in operating margin was primarily attributable to the revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals, the decrease in intangible asset amortization expense, and the remeasurement gain recognized in the first quarter of 2019 related to our liabilities for contingent consideration compared to the remeasurement loss recognized in the first quarter of 2018. These increases to the operating margin were partially offset by the increase in salaries and related expenses for our support personnel, as a percentage of revenues, during the first three months of 2019 compared to the same prior year period.

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Other Expense, Net

Total other expense, net decreased by \$3.1 million to \$2.0 million in the first three months of 2019 from \$5.1 million in the first three months of 2018. The decrease in total other expense, net was primarily attributable to a \$2.1 million gain in the market value of our investments that are used to fund our deferred compensation liability compared to a \$0.2 million loss in the same prior year period, and a \$0.7 million decrease in interest expense, net of interest income in the first quarter of 2019 compared to the first quarter of 2018. The decrease in interest expense was due to lower levels of borrowing under our credit facility during the first three months of 2019 compared to the same prior year period, partially offset by higher interest rates during the first three months of 2019 compared to the same prior year period.

Income Tax Expense

For the three months ended March 31, 2019, our effective tax rate was 29.0% as we recognized income tax expense from continuing operations of \$1.4 million on income from continuing operations of \$4.7 million. The effective tax rate of 29.0% was less favorable than the statutory rate, inclusive of state income taxes, of 26.4% primarily due to \$0.5 million of foreign losses with no tax benefit, which had an unfavorable impact of 2.9% on the effective tax rate; and \$0.1 million of additional tax expense related to disallowed executive compensation deductions, which had an unfavorable impact of 1.8% on the effective tax rate. These unfavorable adjustments to our effective tax rate were partially offset by \$0.1 million of discrete tax benefit for share-based compensation awards that vested during the first quarter of 2019 and which had a favorable impact of 1.8% on the effective tax rate.

For the three months ended March 31, 2018, our effective tax rate was (14.7)% as we recognized income tax expense from continuing operations of \$0.4 million on a loss from continuing operations of \$2.8 million. The effective tax rate of (14.7)% was less favorable than the statutory rate inclusive of state income taxes, of 26.0% primarily due to discrete tax expense for share-based compensation awards that vested during the quarter and which had an unfavorable impact of 43.7% on the effective tax rate.

Net Income (Loss) from Continuing Operations

Net income from continuing operations increased by \$6.6 million to \$3.4 million for the three months ended March 31, 2019, from a net loss from continuing operations of \$3.2 million for the same prior year period. As a result of the increase in net income from continuing operations, diluted earnings per share from continuing operations for the first three months of 2019 was \$0.15 compared to diluted loss per share from continuing operations of \$0.15 for the first three months of 2018.

EBITDA and Adjusted EBITDA

EBITDA increased \$5.1 million to \$17.3 million for the three months ended March 31, 2019, from \$12.2 million for the three months ended March 31, 2018. Adjusted EBITDA increased \$4.3 million to \$18.0 million in the first three months of 2019 from \$13.7 million in the first three months of 2018. The increases in EBITDA and adjusted EBITDA were primarily attributable to the increase in revenues, partially offset by the increases in salaries and related expenses for both our support personnel and our revenue-generating professionals and performance bonus expense for our revenue-generating professionals.

Adjusted Net Income from Continuing Operations

Adjusted net income from continuing operations increased \$4.6 million to \$8.9 million in the first three months of 2019 compared to \$4.2 million in the first three months of 2018. As a result of the increase in adjusted net income from continuing operations, adjusted diluted earnings per share from continuing operations for the first three months of 2019 was \$0.40 compared to \$0.19 for the first three months of 2018.

Segment Results

Healthcare

Revenues

Healthcare segment revenues increased \$3.8 million, or 4.2%, to \$93.7 million for the first three months of 2019 from \$89.9 million for the first three months of 2018.

During the three months ended March 31, 2019, revenues from fixed-fee engagements; time-and-expense engagements; performance-based arrangements; and software support, maintenance and subscription arrangements represented 67.9%, 13.6%, 12.6%, and 5.9% of this segment's revenues, respectively, compared to 67.0%, 14.2%, 11.4%, and 7.4% of this segment's revenues, respectively, for the same prior year period. Performance-based fee revenue was \$11.8 million during the first three months of 2019, compared to \$10.2 million during the first three months of 2018. The level of performance-based fees earned may vary based on our clients' risk sharing preferences and the mix of services we provide.

Of the overall \$3.8 million increase in revenues, \$5.5 million was attributable to an increase in revenues from our full-time billable consultants, partially offset by a \$1.8 million decrease in revenues attributable to our full-time equivalents. The increase in revenues attributable to our full-time billable consultants reflected increases in the average billing rate and the average number of full-time billable consultants, partially offset by a

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decrease in the consultant utilization rate. The decrease in revenues attributable to our full-time equivalents reflected a decrease in revenue per full-time equivalent, partially offset by an increase in the average number of full-time equivalents.

Operating Income

Healthcare segment operating income increased \$3.4 million, or 13.9%, to \$27.9 million for the three months ended March 31, 2019, from \$24.5 million for the three months ended March 31, 2018. The Healthcare segment operating margin increased to 29.7% for the first three months of 2019 from 27.2% in the same period last year. The increase in this segment's operating margin was primarily attributable to decreases in salaries and related expenses for our revenue-generating professionals, which included an increase in capitalization of salaries and related expenses related to internal software development projects, and contractor expense; partially offset by increases in salaries and related expenses for our support personnel, practice administration and meetings expense and project costs, all as percentages of revenues.

Business Advisory

Revenues

Business Advisory segment revenues increased \$2.9 million, or 5.2%, to \$58.8 million for the first three months of 2019 from \$55.9 million for the first three months of 2018.

During the first three months of 2019, revenues from fixed-fee engagements; time-and-expense engagements; performance-based arrangements; and software support, maintenance and subscription arrangements represented 36.9%, 60.0%, 1.1%, and 2.0% of this segment's revenues, respectively, compared to 40.1%, 56.1%, 1.6%, and 2.2% of this segment's revenues, respectively, during the same prior year period. Performance-based fee revenue was \$0.7 million for the first three months of 2019, compared to \$0.9 million for the first three months of 2018. The level of performance-based fees earned may vary based on our clients' preferences and the mix of services we provide. Of the overall \$2.9 million increase in revenues, \$3.7 million was attributable to an increase in revenues from our full-time billable consultants, partially offset by a \$0.8 million decrease in revenues attributable to our full-time equivalents. The increase in revenues from our full-time billable consultants was primarily driven by increases in the consultant utilization rate and the average number of full-time billable consultants, partially offset by a decrease in the average billing rate. The decrease in revenues from our full-time equivalents was driven by a decreased use of contractors and our part-time project consultants; and reflected a decrease in the average number of full-time equivalents, partially offset by an increase in revenue per full-time equivalent in the first three months of 2019 compared to the same prior year period.

Operating Income

Business Advisory segment operating income increased by \$0.6 million, or 6.5%, to \$9.6 million for the three months ended March 31, 2019, from \$9.0 million for the three months ended March 31, 2018. The Business Advisory segment operating margin increased to 16.3% for the first three months of 2019 from 16.1% in the same period last year. The increase in this segment's operating margin was primarily attributable to revenue growth that outpaced increases in salaries and related expenses and performance bonus expense for our revenue-generating professionals. These increases to the segment's operating margin were largely offset by increases in signing, retention and other bonus expense and share-based compensation expense for our revenue generating professionals, both as percentages of revenues.

Education

Revenues

Education segment revenues increased \$4.1 million, or 8.5%, to \$52.0 million for the first three months of 2019 from \$47.9 million for the first three months of 2018.

For the three months ended March 31, 2019, revenues from fixed-fee engagements; time-and-expense engagements; and software support, maintenance and subscription arrangements represented 23.8%, 68.1%, and 8.1% of this segment's revenues, respectively, compared to 23.6%, 69.8%, and 6.6% of this segment's revenues, respectively,

during the same prior year period.

Of the overall \$4.1 million increase in revenues, \$4.4 million was attributable to an increase in revenues from to our full-time billable consultants, partially offset by a \$0.3 million decrease in revenues attributable to our full-time equivalents. The increase in revenues from our full-time billable consultants reflected increases in the average number of full-time billable consultants and the consultant utilization rate, partially offset by a decrease in the average billing rate. The decrease in revenues from our full-time equivalents was driven by a decreased use of our part-time project consultants; and reflected decreases in the average number of full-time equivalents, partially offset by an increase in revenue per full-time equivalent in the first three months of 2019 compared to the same prior year period.

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Operating Income

Education segment operating income increased \$1.2 million, or 10.4%, to \$12.6 million for the three months ended March 31, 2019, from \$11.4 million for the three months ended March 31, 2018. The Education segment operating margin increased to 24.3% for the first three months of 2019 from 23.9% in the same period last year. The increase in this segment's operating margin was primarily attributable to a decrease in practice administration and meetings expense, revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals, and decreases in technology expense and salaries and related expenses for our support personnel, as percentages of revenues. These increases to the segment's operating margin were partially offset by increases in performance bonus expense for our revenue-generating professionals, contractor expenses, and promotion and marketing expenses, all as percentages of revenue.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased \$24.6 million to \$8.5 million at March 31, 2019 from \$33.1 million at December 31, 2018. As of March 31, 2019, our primary sources of liquidity are cash on hand, cash flows from our U.S. operations, and borrowing capacity available under our credit facility.

| | Three Months Ended March 31, | |
|---|---------------------------------|------------|
| Cash Flows (in thousands): | 2019 | 2018 |
| Net cash used in operating activities | \$(38,289) | \$(36,263) |
| Net cash used in investing activities | (8,087) | (3,767) |
| Net cash provided by financing activities | 21,722 | 29,541 |
| Effect of exchange rate changes on cash | 73 | 16 |
| Net decrease in cash and cash equivalents | \$(24,581) | \$(10,473) |

Operating Activities

Net cash used in operating activities totaled \$38.3 million and \$36.3 million for the three months ended March 31, 2019 and 2018, respectively. Our operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable and accrued expenses, accrued payroll and related benefits, and deferred revenues. The volume of services rendered and the related billings and timing of collections on those billings, as well as payments of our accounts payable and salaries, bonuses, and related benefits to employees affect these account balances.

The increase in cash used in operating activities for the first three months of 2019 compared to the same prior year period was primarily attributable to an increase in the amount paid for annual performance bonuses during the first quarter of 2019 compared to the first quarter of 2018, largely offset by an increase in cash collections from clients.

Investing Activities

Net cash used in investing activities was \$8.1 million and \$3.8 million for the three months ended March 31, 2019 and 2018, respectively.

The use of cash in the first three months of 2019 primarily consisted of \$3.6 million for contributions to our life insurance policies which fund our deferred compensation plan; \$2.3 million for purchases of property and equipment, primarily related to purchases of computers and related equipment; and \$2.1 million for payments related to internally developed software.

The use of cash in the first three months of 2018 primarily consisted of \$1.5 million for contributions to our life insurance policies which fund our deferred compensation plan; \$1.4 million for purchases of property and equipment, primarily related to purchases of computers and related equipment; and \$0.7 million for payments related to internally developed software.

We estimate that cash utilized for purchases of property and equipment and software development in 2019 will be approximately \$15 million to \$20 million, primarily consisting of information technology related equipment to support our corporate infrastructure, leasehold improvements for certain office locations, and software development

costs.

Financing Activities

Net cash provided by financing activities was \$21.7 million for the three months ended March 31, 2019. During the first three months of 2019, we borrowed \$40.5 million under our credit facility, primarily to fund our annual performance bonus payment, and made repayments on our credit facility of \$14.5 million.

Net cash provided by financing activities was \$29.5 million for the three months ended March 31, 2018. During the first three months of 2018, we borrowed \$91.5 million under our credit facility, primarily to fund our annual performance bonus payment, and made repayments on our credit facility of \$58.0 million.

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Share Repurchase Program

We currently have a share repurchase program permitting us to repurchase up to \$125 million of our common stock through October 31, 2019 (the "Share Repurchase Program"). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our credit facility, general market and business conditions, and applicable legal requirements. No shares were repurchased in the first three months of 2019 or 2018. As of March 31, 2019, \$35.1 million remains available for share repurchases.

Financing Arrangements

At March 31, 2019, we had \$250.0 million principal amount of our 1.25% convertible senior notes outstanding, \$76.0 million outstanding under our senior secured credit facility, and \$4.2 million outstanding under a promissory note, as discussed below.

1.25% Convertible Senior Notes

In September 2014, we issued \$250.0 million principal amount of the Convertible Notes in a private offering. The Convertible Notes are senior unsecured obligations of the Company and will pay interest semi-annually on April 1 and October 1 of each year at an annual rate of 1.25%. The Convertible Notes will mature on October 1, 2019, unless earlier repurchased by the Company or converted in accordance with their terms. We expect to refinance the principal amount of the outstanding notes at maturity with the borrowing capacity available under our revolving credit facility. Upon conversion, the Convertible Notes will be settled, at our election, in cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock. Our current intent and policy is to settle conversions with a combination of cash and shares of common stock with the principal amount of the Convertible Notes paid in cash, in accordance with the settlement provisions of the Indenture.

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

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

The carrying amount of our Convertible Notes as of March 31, 2019 and December 31, 2018, was \$245.1 million and \$242.6 million, respectively, which represented the \$250.0 million principal amount net of unamortized debt discount and issuance costs. The carrying amount of our Convertible Notes is included in current maturities of long-term debt on the consolidated balance sheet.

For further information, see Note 8 "Financing Arrangements" within the notes to our consolidated financial statements.

Senior Secured Credit Facility

The Company has a \$500 million senior secured revolving credit facility, subject to the terms of a Second Amended and Restated Credit Agreement dated as of March 31, 2015, as amended to date (as amended and modified the "Amended Credit Agreement"), that becomes due and payable in full upon maturity on March 23, 2023. The Amended Credit Agreement provides the option to increase the revolving credit facility or establish term loan facilities in an aggregate amount of up to \$150 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 \$650 million. The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under a prior credit agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, acquisitions of businesses, 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 2.00% per annum, in the case of LIBOR borrowings, or between 0.25% per annum and 1.00% 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 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.

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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 (defined as the ratio of debt to consolidated EBITDA) ranging from 3.50 to 1.00 to 4.00 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (defined as the ratio of consolidated EBITDA to interest) of 3.50 to 1.00. Consolidated EBITDA for purposes of the financial covenants is calculated on a continuing operations basis and includes adjustments to add back non-cash goodwill impairment charges, share-based compensation costs, certain non-cash restructuring charges, pro forma historical EBITDA for businesses acquired, and other specified items in accordance with the Amended Credit Agreement. At March 31, 2019, we were in compliance with these financial covenants with a Consolidated Leverage Ratio of 2.99 to 1.00 and a Consolidated Interest Coverage Ratio of 12.08 to 1.00.

The Amended Credit Agreement contains restricted payment provisions, including a potential limit on the amount of dividends we may pay. Pursuant to the terms of the Amended Credit Agreement, if our Consolidated Leverage Ratio is greater than 3.00, the amount of dividends and other Restricted Payments (as defined in the Amended Credit Agreement) we may pay is limited to an amount up to \$75 million plus 50% of cumulative consolidated net income (as defined in the Amended Credit Agreement) from the closing date of the Amended Credit Agreement plus 50% of the net cash proceeds from equity issuances after the closing date of the Amended Credit Agreement.

Borrowings outstanding under the Amended Credit Agreement at March 31, 2019 totaled \$76.0 million. These borrowings carried a weighted average interest rate of 4.5%, including the impact of the interest rate swap in effect as of March 31, 2019 and described in Note 10 “Derivative Instrument and Hedging Activity” within the notes to the consolidated financial statements. Borrowings outstanding under the Amended Credit Agreement at December 31, 2018 were \$50.0 million and carried a weighted average interest rate of 3.7%, including the impact of the interest rate swap described in Note 10 “Derivative Instrument and Hedging Activity” within the notes to the consolidated financial statements. The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At March 31, 2019, we had outstanding letters of credit totaling \$1.6 million, which are primarily used as security deposits for our office facilities. As of March 31, 2019, the unused borrowing capacity under the revolving credit facility was \$422.4 million.

Promissory Note due 2024

On June 30, 2017, in conjunction with our purchase of an aircraft related to the acquisition of Innosight, we assumed, from the sellers of the aircraft, a promissory note with an outstanding principal balance of \$5.1 million. The principal balance of the promissory note is subject to scheduled monthly principal payments until the maturity date of March 1, 2024, at which time a final payment of \$1.5 million, plus any accrued and unpaid interest, will be due. Under the terms of the promissory note, we will pay interest on the outstanding principal amount at a rate of one-month LIBOR plus 1.97% per annum. The obligations under the promissory note are secured pursuant to a Loan and Aircraft Security Agreement with Banc of America Leasing & Capital, LLC, which grants the lender a first priority security interest in the aircraft. At March 31, 2019, the outstanding principal amount of the promissory note was \$4.2 million, and the aircraft had a carrying amount of \$5.6 million. At December 31, 2018, the outstanding principal amount of the promissory note was \$4.4 million, and the aircraft had a carrying amount of \$5.8 million.

For further information, see Note 8 “Financing Arrangements” within the notes to the consolidated financial statements.

Future Needs

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

factors, including our future profitability, the quality of our accounts receivable and unbilled services, our relative levels of debt and equity, and the overall condition of the credit markets.

CONTRACTUAL OBLIGATIONS

For a summary of our commitments to make future payments under contractual obligations, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations” in our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material changes to our contractual obligations since December 31, 2018. See Note 2 “Basis of Presentation and Significant Accounting Policies” and Note 3 “New Accounting Pronouncements” within the notes to our consolidated financial statements for information on our adoption of ASC 842, Leases. See Note 5 “Leases” within the notes to our consolidated financial statements for information on our future lease payments and a reconciliation of those lease payments to our operating lease liabilities recorded on our consolidated balance sheet.

OFF-BALANCE SHEET ARRANGEMENTS

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

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CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. We regularly review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate information relative to the current economic and business environment. The preparation of financial statements in conformity with GAAP requires management to make assessments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that we believe present the most complex or subjective measurements and have the most potential to impact our financial position and operating results. While all decisions regarding accounting policies are important, we believe there are five accounting policies that could be considered critical: revenue recognition, allowances for doubtful accounts and unbilled services, business combinations, carrying values of goodwill and other intangible assets, and accounting for income taxes. For a detailed discussion of these critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2018. There have been no material changes to our critical accounting policies during the first three months of 2019.

NEW ACCOUNTING PRONOUNCEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Market Risk and Interest Rate Risk

The value of our Convertible Notes is exposed to interest rate risk. Generally, the fair value of our fixed interest rate Convertible Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of our Convertible Notes is affected by our stock price. The carrying value of our Convertible Notes was \$245.1 million as of March 31, 2019, which represents the liability component of the \$250.0 million principal balance. The estimated fair value of our Convertible Notes at March 31, 2019 was \$246.2 million, and was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market as of the last day of trading for the quarter ended March 31, 2019, which was \$98.476 per \$100 principal amount. At December 31, 2018, the carrying value of our Convertible Notes was \$242.6 million, and the estimated fair value of our Convertible Notes was \$242.9 million, which was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market as of the last day of trading for the year ended December 31, 2018, which was \$97.176 per \$100 principal amount.

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

We have exposure to changes in interest rates associated with borrowings under our bank credit facility, which has variable interest rates tied to LIBOR or an alternate base rate, at our option. At March 31, 2019, we had borrowings outstanding under the credit facility totaling \$76.0 million that carried a weighted average interest rate of 4.5%, including the impact of the interest rate swap described below. A hypothetical 100 basis point change in this interest rate would have a \$0.3 million effect on our pretax income, on an annualized basis, including the effect of the interest rate swap. At December 31, 2018, we had borrowings outstanding under the credit facility totaling \$50.0 million that carried a weighted average interest rate of 3.7% including the impact of the interest rate swap described below. As of December 31, 2018, these variable rate borrowings were fully hedged against changes in interest rates by the interest rate swap, which had a notional amount of \$50.0 million. As our variable rate borrowings were fully hedged as of December 31, 2018, a change in the interest rate would have had no impact on our consolidated financial statements. On June 22, 2017, we entered into a forward interest rate swap agreement effective August 31, 2017 and ending August 31, 2022, with a notional amount of \$50.0 million. We entered into this derivative instrument to hedge against the interest rate risks of our variable-rate borrowings. 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 1.900%.

We also have exposure to changes in interest rates associated with the promissory note assumed on June 30, 2017 in connection with our purchase of an aircraft, which has variable interest rates tied to LIBOR. At March 31, 2019, the outstanding principal amount of the promissory note was \$4.2

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million and carried an interest rate of 4.5%. A hypothetical 100 basis point change in this interest rate would not have a material effect on our pretax income. At December 31, 2018, the outstanding principal amount of the promissory note was \$4.4 million and carried an interest rate of 4.3%. A hypothetical 100 basis point change in the interest rate as of December 31, 2018 would not have had a material effect on our pretax income.

We do not use derivative instruments for trading or other speculative purposes. From time to time, we invest excess cash in short-term marketable securities. These investments principally consist of overnight sweep accounts. Due to the short maturity of these investments, we have concluded that we do not have material market risk exposure.

We have a non-interest bearing convertible debt investment in a privately-held company, which we account for as an available-for-sale debt security. As such, the investment is carried at fair value with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income. As of March 31, 2019, the fair value of the investment was \$54.0 million, with a total cost basis of \$27.9 million. At December 31, 2018, the fair value of the investment was \$50.4 million, with a total cost basis of \$27.9 million.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2019. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2019, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act, and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The information required by this Item is incorporated by reference from Note 14 "Commitments, Contingencies and Guarantees" included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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

ITEM 1A. RISK FACTORS.

See Part 1, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which was filed with the Securities and Exchange Commission on February 27, 2019, for a complete description of the material risks we face.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Our Stock Ownership Participation Program, 2012 Omnibus Incentive Plan, and 2004 Omnibus Stock Plan, which was replaced by the 2012 Omnibus Incentive Plan, permit the netting of common stock upon vesting of restricted stock awards to satisfy individual tax withholding requirements. During the quarter ended March 31, 2019, we reacquired 94,500 shares of common stock with a weighted average fair market value of \$46.40 as a result of such tax withholdings.

In October 2014, our board of directors authorized a share repurchase program pursuant to which we may, from time to time, repurchase up to \$125 million of our common stock, which expires on October 31, 2019 (the "Share Repurchase Program"). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our line of credit, general market and business conditions, and applicable legal requirements. The following table provides information with respect to purchases we made of our common stock during the quarter ended March 31, 2019.

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| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares that may yet be Purchased under the Plans or Programs (2) |
|--------------------------------------|--|---------------------------------|--|---|
| January 1, 2019 - January 31, 2019 | 7,745 | \$ 51.31 | — | \$ 35,143,546 |
| February 1, 2019 - February 28, 2019 | — | \$ — | — | \$ 35,143,546 |
| March 1, 2019 - March 31, 2019 | 86,755 | \$ 45.96 | — | \$ 35,143,546 |
| Total | 94,500 | \$ 46.40 | — | |

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

(2) As of the end of the period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

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ITEM 6. EXHIBITS.

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

| Exhibit Number | Exhibit Description | Filed herewith | Furnished herewith | Incorporated by Reference | | | |
|----------------|--|----------------|--------------------|---------------------------|---------------|---------|-------------|
| | | | | Form | Period Ending | Exhibit | Filing Date |
| 31.1 | <u>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.</u> | X | | | | | |
| 31.2 | <u>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.</u> | X | | | | | |
| 32.1 | <u>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.</u> | | X | | | | |
| 32.2 | <u>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.</u> | | X | | | | |
| 101.INS | XBRL Instance Document | X | | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X | | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | X | | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | X | | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | X | | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X | | | | | |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Huron Consulting Group Inc.
(Registrant)

Date: April 30, 2019 /S/ JOHN D. KELLY
John D. Kelly
Executive Vice President,
Chief Financial Officer and Treasurer