

Huron Consulting Group Inc.  
Form 10-K/A  
August 17, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10 K/A**

(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

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

Commission file number: 000-50976

**HURON CONSULTING GROUP INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**01-0666114**  
(I.R.S. Employer

Identification Number)

**550 West Van Buren Street**

**Chicago, Illinois 60607**

(Address of principal executive offices and zip code)

**(312) 583-8700**

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

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

Large accelerated filer

Accelerated filer

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$799,800,000.

As of February 13, 2009, 21,084,510 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

### **Documents Incorporated By Reference**

Portions of the registrant's definitive Proxy Statement for the annual meeting held on May 6, 2009 are incorporated by reference into Part III.

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**HURON CONSULTING GROUP INC.**  
**ANNUAL REPORT ON FORM 10-K/A**  
**FOR FISCAL YEAR ENDED DECEMBER 31, 2008**

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**EXPLANATORY NOTE TO AMENDMENT NO. 1**

In this Amendment No. 1 on Form 10-K/A ( Amendment ) to our annual report on Form 10-K originally filed with the U.S. Securities and Exchange Commission ( SEC ) on February 24, 2009 (the Original Filing ), we are restating the following previously-issued financial statements:

Our audited consolidated balance sheets as of December 31, 2008 and 2007;

Our audited consolidated statements of income for the years ended December 31, 2008, 2007 and 2006;

Our audited consolidated statements of stockholders' equity for the years ended December 31, 2008, 2007 and 2006; and

Our audited consolidated statements of cash flows for the years ended December 31, 2008, 2007 and 2006.

In addition, we are contemporaneously filing an amendment to our quarterly report on Form 10-Q for the period ended March 31, 2009 to restate our financial statements for the first quarter of 2009. The restatement relates to four businesses that we acquired between 2005 and 2007 (the Acquired Businesses ). Pursuant to the purchase agreements for each of these acquisitions, payments were made by us to the selling shareholders (1) upon closing of the transaction, (2) in some cases, upon the Acquired Businesses achieving specific financial performance targets over a number of years ( earn-outs ), and (3) in one case, upon the buy-out of an obligation to make earn-out payments. These payments are collectively referred to as acquisition-related payments.

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

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

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

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

This restatement is necessary because we failed to account for the Shareholder Payments and the Employee Payments in accordance with GAAP. The selling shareholders were not prohibited from making the Shareholder Payments or the Employee Payments under the terms of the

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purchase agreements with the Company for the acquisitions of the Acquired Businesses. However, under GAAP, including guidance promulgated by the SEC, actions of economic interest holders in a company may be imputed to the company itself. The selling shareholders of the Acquired Businesses meet the criteria of economic interest holders of Huron due to their ability to earn additional consideration from Huron. As such, when the selling shareholders redistribute acquisition-related payments among themselves or redistribute a portion of their acquisition-related payments to our employees who were not selling shareholders based on employment or performance-based

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criteria, these payments are viewed as resulting from services that are assumed to have benefited Huron and must therefore be recorded as non-cash compensation expense incurred by Huron under GAAP. Accordingly, the Employee Payments and the Shareholder Payments are imputed to us. In the case of the Shareholder Payments, such payments are imputed to us even when the amounts that are received by the selling shareholders in the redistribution do not differ significantly from the amounts the selling shareholders would have received if the portion of the acquisition-related payments redistributed based on performance or employment had been distributed solely in accordance with the ownership interests of the applicable selling shareholders on the date we acquired the business. In effect, the Shareholder Payments and the Employee Payments are in substance a second and separate transaction from our acquisition of the Acquired Businesses, which should have been recorded as a separate non-cash accounting entry. Both the Shareholder Payments and the Employee Payments are therefore required to be reflected as non-cash compensation expense of Huron, and the selling shareholders are deemed to have made a capital contribution to Huron. The entries are non-cash because the payments were made directly by the selling shareholders from the acquisition proceeds they received from us. We did not expend additional cash with respect to the compensation charge.

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

In light of these determinations and given the magnitude of the accounting errors underlying the restatement, our Board of Directors concluded that it was appropriate for the Company to appoint a new Chairman, a new Chief Executive Officer, a new Chief Financial Officer and a new Chief Accounting Officer. Our Board of Directors and Gary Holdren, our then Chief Executive Officer, agreed that he should resign as Chairman of the Board and Chief Executive Officer. George Massaro, who was the then Vice Chairman of the Board of Directors, was elected as our Non-Executive Chairman of the Board of Directors. James Roth, one of the founders of the Company, was named Chief Executive Officer. James Rojas, another founder of the Company, was named Chief Financial Officer, succeeding Gary Burge who will remain as Treasurer and remain with the Company until the end of 2009. Wayne Lipski, previously Chief Accounting Officer, will be leaving the Company.

As a result of the correction of these non-tax deductible errors, we recalculated our provision for income taxes for each of the quarterly periods using the annual effective income tax rate method in accordance with Statement of Financial Accounting Standards, or SFAS, No. 109,

Accounting for Income Taxes. As such, our interim quarterly provision for income taxes decreased in certain periods and increased in others, with a corresponding change in income tax receivable or payable. However, there is no change to our provision for income taxes or our tax accounts on an annual basis. While the correction of these errors significantly reduced our net income and earnings per share for each of the affected periods, it had no effect on our total assets, total liabilities, or total stockholders' equity on an annual basis. Further, the correction of these errors had no effect on our net cash flows. The tables below summarize the impact of the restatement on our consolidated statements of income for the years ended December 31, 2008, 2007 and 2006 (in thousands, except earnings per share). The effects of the restatement, including the tax adjustments, for each of the quarters during the years ended December 31, 2008, 2007 and 2006 are further presented in note

18. Restatement of Previously-Issued Quarterly Financial Statements (unaudited) in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data.

2008	Three Months Ended (Unaudited)				Full Year 2008
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	
Impact on Consolidated Statement Of Income:					
Increase in Direct Costs	\$ 5,020	\$ 12,885	\$ 6,047	\$ 6,618	\$ 30,570
Increase (Decrease) in Provision for Income Taxes	\$ 2,144	\$ (4,211)	\$ 345	\$ 1,722	\$
Decrease in Net Income	\$ (7,164)	\$ (8,674)	\$ (6,392)	\$ (8,340)	\$ (30,570)
Decrease in Basic Earnings Per Share	\$ (0.41)	\$ (0.50)	\$ (0.33)	\$ (0.44)	\$ (1.68)
Decrease in Diluted Earnings Per Share	\$ (0.39)	\$ (0.48)	\$ (0.32)	\$ (0.41)	\$ (1.60)

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2007	Three Months Ended (Unaudited)				Full Year
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	2007
Impact on Consolidated Statement Of Income:					
Increase in Direct Costs	\$ 3,072	\$ 3,122	\$ 5,594	\$ 5,833	\$ 17,621
Increase (Decrease) in Provision for Income Taxes	\$ 678	\$ 722	\$ (822)	\$ (578)	\$
Decrease in Net Income	\$ (3,750)	\$ (3,844)	\$ (4,772)	\$ (5,255)	\$ (17,621)
Decrease in Basic Earnings Per Share	\$ (0.23)	\$ (0.23)	\$ (0.27)	\$ (0.31)	\$ (1.04)
Decrease in Diluted Earnings Per Share	\$ (0.21)	\$ (0.21)	\$ (0.27)	\$ (0.28)	\$ (0.97)

2006	Three Months Ended (Unaudited)				Full Year
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	2006
Impact on Consolidated Statement Of Income:					
Increase in Direct Costs	\$ 1,473	\$ 820	\$ 818	\$ 719	\$ 3,830
Increase (Decrease) in Provision for Income Taxes	\$ (360)	\$ (14)	\$ 171	\$ 203	\$
Decrease in Net Income	\$ (1,113)	\$ (806)	\$ (989)	\$ (922)	\$ (3,830)
Decrease in Basic Earnings Per Share	\$ (0.07)	\$ (0.06)	\$ (0.05)	\$ (0.05)	\$ (0.23)
Decrease in Diluted Earnings Per Share	\$ (0.07)	\$ (0.04)	\$ (0.06)	\$ (0.05)	\$ (0.22)

The restatement is further described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data. In addition, certain risks and uncertainties relating to the restatement and certain other risks and uncertainties that are heightened by the restatement are described in Item 1A. Risk Factors. As a result of the inquiry, we have identified a material weakness in the Company's internal control over financial reporting, which is described under Item 9A. Controls and Procedures.

On August 4, 2009, we signed an Acknowledgment and Consent Agreement with respect to our \$460 Million Revolving Credit and Term Loan Credit Agreement (the "Credit Agreement"). We requested an advance of \$6 million under the revolving credit facility to fund current working capital needs during the interim period while we restate our financial statements. The lenders agreed to this request subject to a reservation of rights under the Credit Agreement. This advance, together with collections on our accounts receivable, provided adequate working capital during the interim period prior to the restatement of our financial statements. We expect to be in full compliance with the financial covenants under the Credit Agreement once the restatement is completed and compliance certificates for the second quarter of 2009 are provided to the lenders. We have been engaging, and expect to continue to engage, in regular discussions with our lenders.

On July 31, 2009, immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in the price of our common stock, we expect to engage in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009. If following such analysis we are required to record a non-cash goodwill impairment charge, we may not be in compliance with the financial covenants in the Credit Agreement. In the absence of an amendment or waiver from our lenders, failure to comply with such covenants may result in (1) a default interest rate of 2% being charged in addition to the interest rate as determined under the Credit Agreement on all of our outstanding indebtedness under the Credit Agreement, (2) our not being able to make additional borrowings under the Credit Agreement, which we rely on to fund our operations, and (3) the lenders requiring us to repay our outstanding indebtedness, under the Credit Agreement, which totaled \$295 million as of June 30, 2009. There can be no assurance that we will remain in compliance with the financial covenants under the Credit Agreement or, if we are not, that we will obtain the necessary amendments or waivers and, even if we are able to obtain them, such amendments or waivers may subject us to terms materially less favorable to us than those in our current agreement. A discussion of the risks and uncertainties relating to the Credit Agreement and our ability to borrow funds under the Credit Agreement is set forth in Item 1A. Risk Factors.

The SEC is commencing an investigation with respect to the circumstances that led to the restatement. In addition to the SEC investigation, we conducted a separate inquiry, in response to an inquiry from the SEC, into the allocation of chargeable hours. This matter has no impact on billings to our clients, but could impact the timing of when revenue is recognized. Based on our internal inquiry, which is substantially complete, we have concluded that an adjustment to our historical financial statements is not required with respect to this matter. The SEC inquiry with respect to the allocation of chargeable hours is ongoing. We intend to cooperate fully with the SEC in its investigation with respect to the circumstances that led to the





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restatement and its inquiry into the allocation of chargeable hours. In addition, several purported shareholder class action complaints have been filed in connection with our restatement in the United States District Court for the Northern District of Illinois, which assert claims under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 10b-5 promulgated thereunder and contend that the Company and the individual defendants issued false and misleading statements regarding the Company's financial results and compliance with GAAP. We intend to defend vigorously the actions. See Item 3. Legal Proceedings, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data for a description of these lawsuits. In addition, see Item 1A. Risk Factors for a discussion of certain risks and uncertainties relating to the SEC investigation, the SEC inquiry and the private lawsuits and certain other risks and uncertainties that are heightened by the SEC investigation, the SEC inquiry and the private lawsuits.

This Amendment sets forth the Original Filing in its entirety; however, this Amendment only amends disclosures and amounts related to the restatement. The following items in the Original Filing have been amended as a result of the restatement:

Part I: Item 1A Risk Factors

Part I: Item 3 Legal Proceedings

Part II: Item 6 Selected Financial Data

Part II: Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II: Item 8 Financial Statements and Supplementary Data

Part II: Item 9A Controls and Procedures

Part IV: Item 15 Exhibits and Financial Statement Schedules

Except to the extent relating to the restatement of our financial statements and the inquiry by the Company and the SEC into the allocation of chargeable hours discussed below, we have not modified or updated disclosures presented in the Original Filing to reflect events or developments that have occurred after the date of the Original Filing. Among other things, forward-looking statements made in the Original Filing have not been revised to reflect events, results or developments that have occurred or facts that have become known to us after the date of the Original Filing (other than with respect to the restatement and the inquiry by the Company and the SEC into the allocation of chargeable hours), and such forward-looking statements should be read in their historical context and in conjunction with our filings with the SEC subsequent to the date of the Original Filing, including any amendments to these filings.

The effects of the restatement, including the tax adjustments, on each of the quarters during the years ended December 31, 2008, 2007 and 2006 are presented in note 18. Restatement of Previously-Issued Quarterly Financial Statements (unaudited) in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data. We have not amended any of our previously-filed quarterly reports on Form 10-Q for the quarters ended on or prior to December 31, 2008.

This Amendment should be read in conjunction with our filings made with the SEC subsequent to the Original Filing, including any amendments to these filings.

This Amendment includes currently-dated certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, which are filed as Exhibits 31.1, 31.2, 32.1 and 32.2.

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In this annual report on Form 10-K, unless the context otherwise requires, the terms Huron, company, we, us and our refer to Huron Consulting Group Inc. and its subsidiaries.

Statements in this Amendment, including the information incorporated by reference herein, that are not historical in nature, including those concerning the Company's current expectations about its future results, are forward-looking statements as defined in Section 21E of the Exchange Act and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by words such as may, should, expects, plans, anticipates, assumes, can, considers, could, intends, might, predicts, seeks, would, believes, uncertainties and assumptions that could impact the Company's forward-looking statements relate, among other things, to (i) the restatement, (ii) the SEC investigation and related Company inquiries with respect to the circumstances that led to

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the restatement, (iii) the SEC and related Company inquiries into the allocation of chargeable hours, (iv) the Company's projected accounting treatment for acquisition-related payments after August 1, 2009, and (v) management's assessment of the Company's internal control over financial reporting and any required remediation. In addition, these forward-looking statements reflect our current expectation about our future results, levels of activity, performance, or achievements, including, without limitation, that our business continues to grow at the current expectations with respect to, among other factors, utilization rates, billing rates, and the number of revenue-generating professionals; that we are able to expand our service offerings; that we successfully integrate the businesses we acquire; and that existing market conditions, including those in the credit markets, do not continue to deteriorate substantially. These statements involve known and unknown risks, uncertainties and other factors, including, among others, those described under Item 1A. Risk Factors, that may cause actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Forward-looking statements reflect the Company's expectations, estimates, projections and assumptions as of the date of the Original Filing (other than with respect to the restatement and the inquiry by the Company and the SEC into the allocation of chargeable hours), and such forward-looking statements should be read in their historical context and in conjunction with the Company's filings with the SEC subsequent to the date of the Original Filing, including any amendments to these filings.

## **PART I**

### **ITEM 1. BUSINESS. OVERVIEW**

We are a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, comply with complex regulations, resolve disputes, recover from distress, leverage technology, and stimulate growth. We team with our clients to deliver sustainable and measurable results. Our highly experienced professionals, many of whom have master's degrees in business or healthcare administration, have doctorates in economics, are certified public accountants, or are accredited valuation specialists and forensic accountants, employ their expertise in accounting, finance, economics and operations to provide our clients with specialized analyses and customized advice and solutions that are tailored to address each client's particular challenges and opportunities. Although historically we have primarily served clients domestically, we intend to continue to expand internationally, including in Asia and the Middle East.

Huron was formed in March 2002 and commenced operations in May 2002. We were founded by a core group of experienced financial and operational consultants that consisted primarily of former Arthur Andersen LLP partners and professionals, including our Chief Executive Officer, Gary E. Holdren, with equity sponsorship from a group of investors led by Lake Capital Management LLC. In October 2004, we completed our initial public offering and became a publicly traded company.

During the years ended December 31, 2008, 2007 and 2006, we completed the following acquisitions:

In April 2006, we acquired MSGalt & Company, LLC (Galt), a specialized advisory firm that designs and implements corporate-wide programs to improve shareholder returns. With the acquisition of Galt, we expanded our value and service offerings to the offices of the chief executive officer and boards of Fortune 500 companies.

In July 2006, we acquired Document Review Consulting Services LLC (DRCS), a consulting firm that provides comprehensive document review using experienced contract reviewers. Also in July 2006, we acquired Aaxis Technologies Inc. (Aaxis). Aaxis provides full-service electronic data discovery support to litigation teams and corporate counsel with a focus on forensics and data gathering, end-to-end data processing, and information consulting. The acquisitions of DRCS and Aaxis enhanced our service offerings to the offices of the general counsel and law firms by helping them manage digital information in a comprehensive manner during litigation, investigations, mergers and acquisitions, and other major transactions.

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

Also in January 2007, we acquired Glass & Associates, Inc. ( Glass ), a turnaround and restructuring consulting firm that provides advice and leadership to troubled businesses in the United States and Europe. With the acquisition of Glass, we expanded our position in the consulting and restructuring marketplace, as well as expanded our interim management capabilities to distressed companies in industries beyond healthcare.

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In July 2007, we acquired Callaway Partners, LLC ( Callaway ), a professional services firm that specializes in finance and accounting projects, financial reporting, internal audit and controls, and corporate tax solutions. With Callaway s extensive senior consultant and project management skills, along with its variable, on-demand workforce, we are better positioned to assist our clients with their accounting and corporate compliance challenges.

In July 2008, we acquired Stockamp & Associates, Inc. ( Stockamp ), a management consulting firm specializing in helping high-performing hospitals and health systems optimize their financial and operational performance. With the acquisition of Stockamp, we expanded our presence in the hospital consulting market and are better positioned to serve multiple segments of the healthcare industry, including major health systems, academic medical centers and community hospitals.

We have grown significantly since we commenced operations, increasing the number of our full-time professionals from 249 as of May 31, 2002 to 2,129 as of December 31, 2008, through hiring and acquisitions of complementary businesses. We have hired experienced professionals from a variety of organizations, including the four largest public accounting firms, referred to as the Big Four, and other consulting firms. As of December 31, 2008, we had 177 managing directors who have revenue-generating responsibilities. These individuals have an average of 23 years of business experience. In addition to our full-time employees, we have a roster of consultants, contract reviewers, and other independent contractors who supplement our full-time revenue-generating professionals on an as-needed basis. In addition to our headquarters in Chicago, we have other domestic and international offices, including those located in the following major metropolitan cities: Atlanta, Georgia; Boston, Massachusetts; Houston, Texas; Los Angeles, California; New York City, New York; Portland, Oregon; San Francisco, California; Tokyo, Japan; and Washington D.C. We also have six document review centers located in Chicago, Illinois; Houston, Texas; Miramar, Florida; Morrisville, North Carolina; New York City, New York; and Rock Hill, South Carolina, totaling approximately 1,000 workstations.

## **OUR SERVICES**

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

We provide our services through four operating segments: Health and Education Consulting, Accounting and Financial Consulting (previously named Financial Consulting), Legal Consulting and Corporate Consulting. For the year ended December 31, 2008, we derived 44.8%, 21.8%, 19.7% and 13.7% of our revenues from Health and Education Consulting, Accounting and Financial Consulting, Legal Consulting, and Corporate Consulting, respectively. For further financial information on our segment results, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and note 15. Segment Information in the notes to consolidated financial statements included elsewhere in this annual report on Form 10-K.

### **Health and Education Consulting**

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

**Pharmaceutical and health plans.** Our pharmaceutical and health plans practice focuses on operational, compliance, and government contracting issues related to federal healthcare programs. We assist the health insurance industry in navigating and in responding to a wide array of business matters and compliance requirements that arise within the industry and from contracting relationships with the federal government. Our services to the health insurance industry include federal healthcare contract consulting, medical cost containment, operational and financial advisory services, and regulatory and contract compliance services. We help pharmaceutical and medical device

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manufacturers optimize performance, improve operations, mitigate risk, manage compliance, and support counsel in regulatory investigations. Our services to pharmaceutical and medical device companies include government price reporting and commercial contracting, corporate integrity agreements, medical affairs and clinical activities, regulatory and compliance services, off-label communication, sales and marketing compliance, and state reporting and aggregate spend.

**Healthcare.** Our healthcare practice provides integrated performance solutions for hospitals, health systems and academic medical centers. We partner with clients to deliver improvements to the bottom line, more efficient and effective operations, increased revenues, patient flow improvements, reductions in labor and non-labor costs, increased patient and employee satisfaction, improved quality of care, enhanced leadership and governance, compliance with legislations and regulations, and improved utilization and efficiency of information technology investments.

**Higher education.** Our higher education professionals have extensive industry knowledge and experience working with institutions on mission-critical business issues relating to the financial, operational, and regulatory aspects of higher education to develop and implement the most effective solutions. We provide comprehensive and customized service offerings in every aspect of higher education and healthcare administration to improve business performance across the entire organization. We serve research universities, academic medical centers, colleges and universities, research institutions, and international organizations. Our primary service areas include financial management and strategy, resource optimization, strategic sourcing and procurement transformation, performance improvement, interim staffing support, information technology planning and integration, risk management and regulatory compliance, research administration, and global health and education.

**Clinical research solutions and healthcare compliance.** Our clinical research solutions and healthcare compliance practice helps clients assess and enhance their compliance and quality programs by conducting investigations and compliance effectiveness assessments, and providing expert testimony, compliance infrastructure redesign, and billing and coding compliance assessments. This practice also specializes in clinical research operational assessments, including clinical research billing and human research protections compliance, conflicts of interest, and other related research services.

### **Accounting and Financial Consulting**

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

**Disputes and forensic accounting.** Our disputes and forensic accounting practice provides financial and economic analyses to support law firms and corporations in connection with business disputes, litigation, international arbitration, tax controversies, and regulatory or internal investigations. We have extensive experience in the areas of financial investigations and forensic accounting, including matters involving the SEC, other regulatory inquiries and investigations, financial restatements, and special accounting projects. We provide specialized accounting, economic and statistical services to gather and analyze voluminous financial data and reconstruct complex transactions and events.

**Economic consulting.** Our economic consulting practice works with clients to provide economic and statistical analyses in situations that arise in connection with litigation, regulatory hearings, complex transactions, bankruptcy, and public policy issues. Our economic consulting group also provides economic-value-driven strategic advice that combines the highly complementary disciplines of economics, accounting, and finance. Our team includes consultants with doctorates in economics and leading academics who perform event studies, sales and claims forecasting, economic damages calculations, policy analysis, and compliance studies.





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**Accounting and finance advisory.** Our accounting and finance advisory practice assists corporations with their accounting and finance needs in the areas of accounting and finance operations support, process improvement, bankruptcies, mergers, acquisitions and divestures, shared services, financial restatements, financial services, investigations, and financial reporting relating to SEC reporting matters. We provide a comprehensive range of finance and accounting services to both public and private sector companies with a focus on flexibility and responsiveness, bringing the methodologies, tools and experience needed to expertly provide optimal solutions across a broad spectrum of needs.

**Valuation.** Our valuation practice delivers expert valuation analyses to clients and their advisors. We perform valuations of businesses, financial interests, intellectual property, real property, machinery and equipment, and other tangible and intangible assets. Our valuation group typically supports client needs in the areas of transactions, litigation, disputes and bankruptcies.

**Corporate governance.** Our corporate governance practice possesses the thought leadership, methodologies, tools, and experience needed to provide optimal solutions to our clients in the areas of enterprise risk management, internal audit, information technology, process improvement, and Sarbanes-Oxley compliance. We help clients identify, assess, and document business risks across their organization, linking them to corporate objectives, processes and sub-processes, and evaluating the related controls on an ongoing basis.

**Tax services.** Our tax services practice consists of an experienced team of senior tax professionals who direct, manage, or support the ever-changing corporate tax compliance and reporting requirements. We assist clients with international, federal, state and local tax planning and compliance, as well as due diligence and assistance with merger and acquisition transactions. We also work effectively with external auditors to ensure our clients meet reporting and filing requirements.

## **Legal Consulting**

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

**Legal business consulting.** Our legal business consulting practice helps both in-house legal departments and outside counsel enhance the quality of legal services while reducing costs by more efficiently aligning strategy, people, processes, and technology. We provide strategic advice to help legal departments and law firms improve their organizational design and business processes, and to help management in their use of outside counsel. We also have extensive experience in selecting, customizing, and successfully rolling out matter management systems and electronic billing systems that help legal departments track and manage lawsuits and other legal matters. These systems are powerful tools for managing budgets, spending, and resources. We provide similar services for contract management systems, document management systems and patent management applications.

**Discovery and records management.** We work with corporations and law firms to provide solutions to enhance their discovery process management and electronic discovery needs. One area of emphasis is helping clients choose and implement technology solutions that improve legal department operations, including litigation preparedness and litigation holds. We provide a full array of digital evidence, discovery, and records management services that include discovery process execution, electronic discovery services, computer forensics, data management, document processing, document review, records program development, records improvement planning and process, and program management, all aimed at reducing costs, coordinating matters and people, streamlining processes and reducing risks. With our V3locity offering, we provide comprehensive e-discovery services, including processing, hosting, review and production, for legal matters using a per page fixed price model. With our state-of-the-art facilities, we blend technology and an integrated process to ensure a work product that outperforms more traditional methods.

## **Corporate Consulting**

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

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

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**Strategy.** Our strategy practice helps well-managed companies deliver superior shareholder returns by working with management to develop the strategies and decision processes that accelerate profitable growth and improve shareholder value. Our strategy practice brings the discipline of the capital markets inside an organization, improving the way businesses are managed.

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

## **OUR CLIENTS AND INDUSTRIES**

We provide consulting services to a wide variety of both financially sound and distressed organizations, including leading academic institutions, healthcare organizations, Fortune 500 companies, medium-sized businesses, and the law firms that represent these various organizations. Since commencing operations in May 2002, we have conducted over 7,000 engagements for over 3,000 clients, and we have worked on engagements with 49 of the 50 largest U.S. law firms listed in The American Lawyer 2008 Am Law 100. Our top ten clients represented approximately 21.4%, 26.1% and 31.2% of our revenues in the years ended December 31, 2008, 2007 and 2006, respectively. No single client accounted for more than 10% of our revenues in 2008 and 2007. Revenues from one client represented 10.2% of our revenues in 2006.

Our clients are in a broad array of industries, including education, healthcare, pharmaceutical, professional services, transportation services, telecommunications, financial services, electronics, consumer products, energy and utilities, industrial manufacturing, and food and beverage. We believe many organizations will face increasingly large and complex business disputes and lawsuits, a growing number of regulatory and internal investigations and more intense public scrutiny given the current economic environment. Concurrently, we believe greater competition and regulation are presenting significant operational and financial challenges for organizations. Many organizations are finding themselves in financial distress and are responding to these challenges by restructuring and reorganizing their businesses and capital structures, while financially healthy organizations are striving to maintain that position, capitalize on opportunities by improving operations, reducing costs, and enhancing revenues. Many organizations have limited dedicated resources to respond effectively to the challenges and opportunities that exist today. Consequently, we believe these organizations will increasingly seek to augment their internal resources with experienced independent consultants like us.

## **EMPLOYEES**

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

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As of December 31, 2008, we had 2,129 full-time employees, including 177 revenue-generating managing directors and 23 non-revenue-generating managing directors, as well as other directors, managers, associates, analysts and assistants. Our revenue-generating managing directors serve clients as advisors and engagement team leaders, originate revenue through new and existing client relationships, and work to strengthen our intellectual capital, develop our people and enhance our reputation. Our revenue-generating directors and managers manage day-to-day client relationships and oversee the delivery and overall quality of our work product. Our revenue-generating associates and analysts gather and organize data, conduct detailed analyses and prepare presentations that synthesize and distill information to support recommendations we deliver to clients. Our non-revenue-generating professionals include our senior management team, business developers, and facilities, finance, human resources, information technology, legal and marketing personnel.

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

We assimilate and support our employees in their career progression through training and development programs. We have structured orientation and training programs for new analysts, milestone programs to help recently promoted employees quickly become effective in their new roles, and opportunities for self-directed training, including both on-line and live technical and consulting courses. We also support the pursuit and ongoing maintenance of many certifications. Employees are assigned internal performance coaches to identify opportunities for development, formal training or certifications.

Our compensation plan includes competitive base salary, incentives and benefits. Under our incentive plan, directors, managers, associates and analysts set goals each year with a performance coach. These goals are aligned with our business goals as well as individual interests and development needs. Managing directors set goals with their practice leader using a balanced scorecard. The incentive plan balances our value of teamwork with recognition of individual performance, and incentive compensation is tied to both team and individual performance. Incentives for managing directors are based on their individual performance and their contribution to their practice and to our business as a whole. Funding of the incentive pool is based on our achievement of annual financial goals and each practice's achievement of its financial goals. In addition, managing directors and others may receive long-term equity incentives.

## **BUSINESS DEVELOPMENT AND MARKETING**

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

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

We also host, participate and sponsor conferences that facilitate client development opportunities, promote brand recognition, and showcase our expertise in the industry. For example, during 2008, we hosted such events as The Summit: A Wall Street Perspective of the Health Insurance Industry Meeting, The Summit GC 2008 Conference, Anti-Money Laundering Compliance in these Turbulent Times Roundtable, Medicare Secondary Payer Mandatory Reporting: Managing the Complexities and Finding the Silver Lining Webinar, the Records and Discovery Management Roundtable, ECRT Users Meeting, multiple document review center open houses, and numerous industry webinars. Additionally, we participated or sponsored numerous conferences for organizations such as National Council of University Research Administrators (NCURA), Association of Corporate Counsel (ACC), National Bar Association (NBA), Turnaround



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Management Association (TMA), Health Care Compliance Association (HCCA), Financial Executive Institute (FEI), Center for Business Intelligence (CBI), Association for Corporate Growth (ACG), Tax Executives Institute (TEI) and Healthcare Financial Management Association (HFMA). These events provide a forum to build and strengthen client relationships, as well as to stay abreast of industry trends and developments.

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

## **COMPETITION**

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

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

## **AVAILABLE INFORMATION**

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

## **ITEM 1A. RISK FACTORS.**

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

**On July 31, 2009, we announced our intention to restate our financial statements for the years ended 2006, 2007 and 2008 and the first quarter of 2009. Concurrently, we announced certain senior management changes. Following such announcements, the price of our common stock declined significantly. The reputational issues raised by the foregoing, the potential goodwill impairment charge arising out of the decline in our stock price and the potential impact of the SEC investigation and private litigation with respect to the restatement could have a material adverse effect on our business, prospects, cash flow, overall liquidity, results of operations or financial condition.**

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



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The damages to our business that may arise out of these reputational issues heighten the risks described below in this Item 1A, and specifically may adversely impact our ability to:

retain our senior management team, our practice leaders and our other managing directors;

hire and retain talented people in an industry where there is great competition for talent;

maintain our existing business practices and revenues given our clients' ability to terminate their engagement agreements with little or no notice and without penalty;

attract new business in the highly competitive consulting services industry; and

continue our growth strategy by hiring individuals or groups of individuals and by acquiring complementary businesses.

On July 31, 2009, immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in the price of our common stock, we expect to engage in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ending September 30, 2009. If following such analysis we are required to record a non-cash goodwill impairment charge, we may not be in compliance with the financial covenants in the Credit Agreement. In the absence of an amendment or waiver from our lenders, failure to comply with such covenants may result in (1) a default interest rate of 2% being charged in addition to the interest rate as determined under the Credit Agreement on all of our outstanding indebtedness under the Credit Agreement, (2) our not being able to make additional borrowings under the Credit Agreement, which we rely on to fund our operations, and (3) the lenders requiring us to repay our outstanding indebtedness under the Credit Agreement, which totaled \$295 million as of June 30, 2009. There can be no assurance that we will remain in compliance with the financial covenants under the Credit Agreement or, if we are not, that we will obtain the necessary amendments or waivers and, even if we are able to obtain them, such amendments or waivers may subject us to terms materially less favorable to us than those in our current agreement. Such amended terms could expose us to significant risks related to increased interest rates, may require us to dedicate a larger portion of our cash from operations to service indebtedness and may limit our ability to obtain additional funding under the Credit Agreement.

Finally, the SEC is commencing an investigation with respect to the circumstances that led to the restatement, and several purported shareholder class action complaints have been filed in respect of the restatement. In addition, the Company conducted a separate inquiry, in response to an inquiry from the SEC, into the allocation of chargeable hours. The SEC inquiry with respect to the allocation of chargeable hours is ongoing. While we are fully cooperating with the SEC in its investigation with respect to the circumstances that led to the restatement and its inquiry into the allocation of chargeable hours and intend to vigorously defend the private actions in respect of the restatement, such investigation, inquiry and actions subject us to a number of additional risks, including:

the diversion of management's time, attention and resources from managing and marketing our company;

increased costs and expenses to respond to the SEC's investigation and inquiry and to defend the private actions;

additional damage to our reputation that may further heighten the risks described above; and

the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts resulting from actions or findings by the SEC or pursuant to rulings, orders or judgments by the courts with jurisdiction over the private actions.



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Given the uncertain nature of the SEC investigation with respect to the circumstances that led to the restatement, the SEC inquiry into the allocation of chargeable hours and the private shareholder class action lawsuits in respect of the restatement, and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the SEC

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investigation, the SEC inquiry and the private lawsuits, we are unable to predict the ultimate outcome of the SEC investigation, the SEC inquiry or the private lawsuits, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the SEC investigation, the SEC inquiry or the private lawsuits. Any such liability could be material.

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

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

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

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

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

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

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

the diversion of management's time, attention and resources from managing and marketing our company;

the failure to retain key acquired personnel;

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the adverse short-term effects on reported operating results from the amortization or write-off of acquired goodwill and other intangible assets;

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potential impairment of existing relationships with our clients, such as client satisfaction or performance problems, whether as a result of integration or management difficulties or otherwise;

the creation of conflicts of interest that require us to decline or resign from engagements that we otherwise could have accepted;

the potential need to raise significant amounts of capital to finance a transaction or the potential issuance of equity securities that could be dilutive to our existing stockholders;

increased costs to improve, coordinate or integrate managerial, operational, financial and administrative systems;

the usage of earn-outs based on the future performance of our business acquisitions may deter the acquired company from fully integrating into our existing business;

a decision not to fully integrate an acquired business may lead to the perception of inequalities if different groups of employees are eligible for different benefits and incentives or are subject to different policies and programs; and

difficulties in integrating diverse backgrounds and experiences of consultants, including if we experience a transition period for newly hired consultants that results in a temporary drop in our utilization rates or margins.

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

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

We have grown significantly since we commenced operations, increasing the number of our full-time professionals from 249 as of May 31, 2002 to 2,129 as of December 31, 2008. As we continue to increase the number of our employees, we may not be able to successfully manage a significantly larger workforce. Additionally, our considerable growth has placed demands on our management and our internal systems, procedures and controls and will continue to do so in the future. To successfully manage growth, we must add administrative staff and periodically update and strengthen our operating, financial, accounting and other systems, procedures and controls, which will increase our costs and may adversely affect our gross profits and our ability to sustain profitability if we do not generate increased revenues to offset the costs. This need to augment our support infrastructure due to growth is compounded by our decision to become a public reporting company and the increased expense that has arisen in complying with existing and new regulatory requirements. As a public company, our information and control systems must enable us to prepare accurate and timely financial information and other required disclosures. If we discover deficiencies in our existing information and control systems that impede our ability to satisfy our reporting requirements, we must successfully implement improvements to those systems in an efficient and timely manner.

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

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

cultural and language differences;

employment laws and rules and related social and cultural factors;

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currency fluctuations between the U.S. dollar and foreign currencies, which is harder to predict in the current adverse global economic climate;

restrictions on the repatriation of earnings;

potentially adverse tax consequences;

different regulatory requirements and other barriers to conducting business;

different or less stable political and economic environments; and

civil disturbances or other catastrophic events.

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

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

At December 31, 2008, we had outstanding borrowings totaling \$280.0 million compared to \$123.5 million at December 31, 2007, representing a 126.7% increase. Our substantial increase in indebtedness could have meaningful consequences for us, including:

exposing us to the risk of increased interest rates because our borrowings are at variable interest rates;

requiring us to dedicate a larger portion of our cash from operations to service our indebtedness and thus reducing the level of cash for other purposes such as funding working capital, strategic acquisitions, capital expenditures, and other general corporate purposes;

limiting our ability to obtain additional financing; and

increasing our vulnerability to general adverse economic, industry, and competitive developments.

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

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

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

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

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

the number and size of client engagements;

the timing of the commencement, completion and termination of engagements, which in many cases is unpredictable;

our ability to transition our consultants efficiently from completed engagements to new engagements;

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the hiring of additional consultants because there is generally a transition period for new consultants that results in a temporary drop in our utilization rate;

unanticipated changes in the scope of client engagements;

our ability to forecast demand for our services and thereby maintain an appropriate level of consultants; and

conditions affecting the industries in which we practice as well as general economic conditions.

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

our clients' perception of our ability to add value through our services;

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the market demand for the services we provide;

an increase in the number of clients in the government sector;

introduction of new services by us or our competitors;

our competition and the pricing policies of our competitors; and

the current adverse economic conditions and a potential prolonged or deepening recession.

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

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

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

our inability to estimate demand for the new service offerings;

competition from more established market participants;

a lack of market understanding; and

unanticipated expenses to recruit and hire qualified consultants and to market our new service offerings.

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

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

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

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

The consulting services industry in which we operate includes a large number of participants and is intensely competitive. We face competition from other business operations and financial consulting firms, general management consulting firms, the consulting practices of major accounting firms, technical and economic advisory firms, regional and specialty consulting firms and the internal professional resources of organizations. In addition, because there are relatively low barriers to entry, we expect to continue to face additional competition from new



entrants into the business operations and financial consulting industries. Many of our competitors have a greater national and international presence, as well as have significantly greater personnel, financial, technical and marketing resources. In addition, these competitors may generate greater revenues and have greater name recognition than we do. Our ability to compete also depends in part on the ability of our competitors to hire, retain and motivate skilled professionals, the price at which others offer comparable services and our competitors responsiveness to their clients. If we are unable to compete successfully with our existing competitors or with any new competitors, our financial results will be adversely affected.

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

When making proposals for fixed-fee engagements, we estimate the costs and timing for completing the engagements. These estimates reflect our best judgment regarding the efficiencies of our methodologies and consultants as we plan to deploy them on engagements. Any increased or unexpected costs or unanticipated delays in connection with the

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performance of fixed-fee engagements, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable, which would have an adverse effect on our profit margin. For the years ended December 31, 2008, 2007 and 2006, fixed-fee engagements represented 31.9%, 25.9% and 13.4% respectively, of our revenues.

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

We have engagement agreements under which our fees include a significant performance-based component. Performance-based fees are contingent on the achievement of specific measures, such as our clients meeting cost-saving or other contractually defined goals. The achievement of these contractually-defined goals is subject to acknowledgement by the client and is often impacted by factors outside of our control, such as the actions of the client or other third parties. Because performance-based fees are contingent, revenues on such engagements, which are recognized when all revenue recognition criteria are met, are not certain and the timing of receipt is difficult to predict and may not occur evenly throughout the year. While performance-based fees comprised only 4.3%, 2.3% and 2.8% of our revenues for the years ended December 31, 2008, 2007 and 2006, respectively, we expect that the percentage of performance-based fee engagements will increase due to Stockamp & Associates, Inc., a consulting firm that we acquired in the third quarter of 2008 and which has a large number of performance-based fee engagements. A greater number of performance-based fee arrangements may result in increased volatility in our working capital requirements and greater variations in our quarter-to-quarter results, which could affect the price of our common stock. In addition, an increase in the proportion of performance-based fee arrangements may temporarily offset the positive effect on our operating results from increases in our utilization rate or average billing rate per hour.

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

As a consulting firm, we have derived, and expect to continue to derive, a significant portion of our revenues from a limited number of clients. Our ten largest clients accounted for approximately 21.4%, 26.1% and 31.2% of our revenues for the years ended December 31, 2008, 2007 and 2006, respectively. No single client accounted for more than 10.0% of our revenues in 2008 and 2007. Revenues from one client accounted for 10.2% of our revenues in 2006. Our clients typically retain us on an engagement-by-engagement basis, rather than under fixed-term contracts; the volume of work performed for any particular client is likely to vary from year to year and a major client in one fiscal period may not require or decide not to use our services in any subsequent fiscal period. Moreover, a large portion of our new engagements comes from existing clients. Accordingly, the failure to obtain new large engagements or multiple engagements from existing or new clients could have a material adverse effect on the amount of revenues we generate.

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

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

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



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

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

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

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

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

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

attract, integrate, retain and motivate highly qualified professionals;

achieve and maintain adequate utilization and suitable billing rates for our revenue-generating professionals;

expand our existing relationships with our clients and identify new clients in need of our services;

successfully re-sell engagements and secure new engagements every year, which may prove to be difficult in light of the current adverse economic conditions;

maintain and enhance our brand recognition; and

adapt quickly to meet changes in our markets, our business mix, the economic environment, the credit markets, and competitive developments.

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

None.

**ITEM 2. PROPERTIES.**

As of December 31, 2008, our principal executive offices in Chicago, Illinois, consisted of approximately 117,000 square feet of office space, under leases expiring through September 2014. We have two five-year renewal options that will allow us to continue to occupy the majority of this office space until September 2024. This facility accommodates our executive team and corporate departments, as well as professionals in each of our practices. We also have a core office located in New York City, New York, consisting of approximately 55,000 square feet of office space, under a lease that expires in July 2016, with one five-year renewal option. Additionally, we occupy leased facilities for our other domestic and international offices, including those located in the following major metropolitan cities: Atlanta, Georgia; Boston,

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Massachusetts; Houston, Texas; Los Angeles, California; Portland, Oregon; San Francisco, California; Tokyo, Japan; and Washington, D.C. We also occupy leased facilities for our six document review centers located in Chicago, Illinois; Houston, Texas; Miramar, Florida; Morrisville, North Carolina; New York City, New York; and Rock Hill, South Carolina, totaling approximately 1,000 workstations. We do not own any real property. We believe that our leased facilities are adequate to meet our current needs and that additional facilities are available for lease to meet future needs.

### **ITEM 3. LEGAL PROCEEDINGS.**

#### **Legal Proceedings at the Time of the Original Filing**

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

From time to time, we are involved in legal proceedings and litigation arising in the ordinary course of business. As of the filing date of the Original Filing, we were not a party to or threatened with any other litigation or legal proceeding that, in our opinion, could have a material adverse effect on our business, operating results or financial condition. However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expected results.

#### **Legal Proceedings Since the Time of the Original Filing**

##### *Related to the Restatement*

The SEC is commencing an investigation with respect to the circumstances that led to the restatement. We intend to cooperate fully with the SEC in its investigation. In addition, the following purported shareholder class action complaints have been filed in connection with our restatement in the United States District Court for the Northern District of Illinois: (1) a complaint in the matter of Jason Hughes v. Huron Consulting Group Inc., Gary E. Holdren and Gary L. Burge, filed on August 4, 2009; (2) a complaint in the matter of Dorothy DeAngelis v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (3) a complaint in the matter of Noel M. Parsons v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge, Wayne Lipski and PricewaterhouseCoopers LLP, filed on August 5, 2009; (4) a complaint in the matter of Adam Liebman v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 5, 2009; (5) a complaint in the matter of Gerald Tobin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and PricewaterhouseCoopers LLP, filed on August 7, 2009 and (6) Gary Austin v. Huron Consulting Group Inc., Gary E. Holdren, Gary L. Burge and Wayne Lipski, filed on August 7, 2009. The complaints assert claims under Section 10(b) and Section 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder and contend that the Company and the individual defendants issued false and misleading statements regarding the Company's financial results and compliance with GAAP. We intend to defend vigorously the actions.

##### *Other*

In addition to the SEC investigation with respect to the circumstances that led to the restatement, the Company conducted a



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separate inquiry, in response to an inquiry from the SEC, into the allocation of chargeable hours. This matter has no impact on billings to our clients, but could impact the timing of when revenue is recognized. Based on the Company's internal inquiry, which is substantially complete, the Company has concluded that an adjustment to its historical financial statements is not required with respect to the matter. The SEC inquiry with respect to the allocation of chargeable hours is ongoing, and we intend to cooperate fully with the SEC in its inquiry.

Given the uncertain nature of the SEC investigation with respect to the circumstances that led to the restatement, the SEC inquiry into the allocation of chargeable hours and the private shareholder class action lawsuits in respect of the restatement, and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the SEC investigation, the SEC inquiry and the private lawsuits, we are unable to predict the ultimate outcome of the SEC investigation, the SEC inquiry or the private lawsuits, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the SEC investigation, the SEC inquiry or the private lawsuits. Any such liability could be material. See Item 1A. Risk Factors for a discussion of certain risks and uncertainties relating to the SEC investigation, the SEC inquiry and the private lawsuits and certain other risks and uncertainties that are heightened by the SEC investigation, the SEC inquiry and the private lawsuits.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

No matters were submitted to a vote of security holders during the fourth quarter of 2008.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.**

**Market Information**

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

	High	Low
<b>2007:</b>		
First Quarter	\$ 67.32	\$ 44.26
Second Quarter	\$ 73.47	\$ 60.01
Third Quarter	\$ 77.06	\$ 61.77
Fourth Quarter	\$ 83.25	\$ 62.79
<b>2008:</b>		
First Quarter	\$ 78.75	\$ 40.63
Second Quarter	\$ 53.59	\$ 41.36
Third Quarter	\$ 65.63	\$ 44.89
Fourth Quarter	\$ 59.90	\$ 42.60

**Holders**

As of February 13, 2009, there were 33 holders of record of Huron's common stock.



**Table of Contents****Dividends**

We have not declared or paid any dividends on our common stock since we became a public company and do not intend to pay any dividends on our common stock in the foreseeable future. We currently expect that we will retain our future earnings, if any, for use in the operation and expansion of our business. Future cash dividends, if any, will be at the discretion of our board of directors and will depend upon, among other things, our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors the board of directors may deem relevant. In addition, our bank credit agreement restricts dividends to an amount up to \$10 million per fiscal year plus 50% of consolidated net income (adjusted for non-cash share-based compensation expense) for such fiscal year, plus 50% of net cash proceeds during such fiscal year with respect to any issuance of capital securities.

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

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

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

Our 2004 Omnibus Stock Plan permits the netting of common stock upon vesting of restricted stock awards to satisfy individual tax withholding requirements. During the quarter ended December 31, 2008, we redeemed 7,197 shares of common stock with a weighted-average fair market value of \$54.04 as a result of such tax withholdings as presented in the table below.

Period		Total Number of Shares Redeemed to Satisfy Employee Tax Withholding Requirements	Weighted-Average Fair Market Value Per Share Redeemed	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2008	October 31, 2008	5,177	\$ 53.91	N/A	N/A
November 1, 2008	November 30, 2008	2,020	\$ 54.37	N/A	N/A
December 1, 2008	December 31, 2008			N/A	N/A
Total		7,197	\$ 54.04	N/A	N/A

N/A Not applicable.

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

The following consolidated statements of operations data for the years ended December 31, 2008, 2007 and 2006 have been restated to reflect adjustments to our financial statements as described in the Explanatory Note in the beginning of this Amendment, under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations below, and in note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data. The consolidated balance sheet data as of December 31, 2008, 2007 and 2006 did not change as a result of the restatement. The following selected consolidated financial data as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 are derived from our audited consolidated financial statements. The following data reflects the business acquisitions that we have completed through December 31, 2008. The results of operations for the acquired businesses have been included in our results of operations since the date of their acquisitions. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations below and the consolidated financial statements and related notes under Item 8. Financial Statements and Supplementary Data.

Consolidated Statements of Operations Data	Year Ended December 31,				
	2008 (Restated)	2007 (Restated)	2006 (Restated)	2005	2004
<b>(in thousands, except per share data):</b>					
<b>Revenues and reimbursable expenses:</b>					
Revenues	\$ 615,476	\$ 504,292	\$ 288,588	\$ 207,213	\$ 159,550
Reimbursable expenses	56,700	43,661	33,330	18,749	14,361
Total revenues and reimbursable expenses	672,176	547,953	321,918	225,962	173,911
<b>Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses) <sup>(1)</sup>:</b>					
Direct costs <sup>(2)</sup>	390,974	311,008	167,399	117,768	93,248
Intangible assets amortization	6,629	7,993	2,207	1,314	
Reimbursable expenses	56,717	43,449	33,506	18,982	14,281
Total direct costs and reimbursable expenses	454,320	362,450	203,112	138,064	107,529
<b>Operating expenses:</b>					
Selling, general and administrative	131,148	102,176	65,926	51,035	40,858
Depreciation and amortization <sup>(1)</sup>	23,291	17,207	9,201	5,282	2,365
Restructuring charges	2,343				3,475
Total operating expenses	156,782	119,383	75,127	56,317	46,698
Operating income	61,074	66,120	43,679	31,581	19,684
<b>Other income (expense):</b>					
Interest expense, net of interest income	(13,773)	(8,263)	(703)	472	(692)
Other income (expense)	(2,731)	19	16	(37)	
Total other income (expense)	(16,504)	(8,244)	(687)	435	(692)
Income before provision for income taxes	44,570	57,876	42,992	32,016	18,992
Provision for income taxes	34,489	33,596	20,133	14,247	8,128
Net income	10,081	24,280	22,859	17,769	10,864
Accrued dividends on 8% preferred stock					931
Net income attributable to common stockholders	\$ 10,081	\$ 24,280	\$ 22,859	\$ 17,769	\$ 9,933
<b>Net income attributable to common stockholders per share <sup>(3)</sup>:</b>					

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Basic	\$ 0.55	\$ 1.43	\$ 1.40	\$ 1.13	\$ 0.77
Diluted	\$ 0.53	\$ 1.35	\$ 1.32	\$ 1.05	\$ 0.72

Weighted average shares used in calculating net income attributable to common stockholders per share <sup>(3)</sup>:

Basic	18,257	16,944	16,359	15,741	12,820
Diluted	19,082	18,033	17,317	16,858	13,765
Cash dividend per common share <sup>(4)</sup>	\$	\$	\$	\$	\$ 0.09

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Consolidated Balance Sheet Data (in thousands):	As of December 31,				
	2008	2007	2006	2005	2004
Cash and cash equivalents	\$ 14,106	\$ 2,993	\$ 16,572	\$ 31,820	\$ 28,092
Working capital	\$ 12,904	\$ 33,511	\$ 36,047	\$ 52,272	\$ 42,898
Total assets	\$ 779,597	\$ 443,213	\$ 199,444	\$ 129,699	\$ 83,219
Long-term debt <sup>(5)</sup>	\$ 280,204	\$ 123,734	\$ 1,000	\$ 2,127	\$
Total stockholders' equity	\$ 319,026	\$ 183,784	\$ 116,580	\$ 75,532	\$ 49,233

- (1) Intangible assets amortization relating to customer contracts, certain client relationships and software is presented as a component of total direct costs. Depreciation, amortization of leasehold improvements and amortization of other intangible assets are presented as a component of operating expenses.
- (2) Includes non-cash compensation expense representing Shareholder Payments and Employee Payments totaling \$30.6 million, \$17.6 million and \$3.8 million in 2008, 2007 and 2006, respectively. These charges are further described in the Explanatory Note in the beginning of this Amendment, under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations below, and in note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data.
- (3) Adjusted for a 1 for 2.3 reverse stock split effected on October 5, 2004.
- (4) On May 12, 2004, we declared a special dividend on each outstanding share of our common stock and 8% preferred stock payable to holders of record on May 25, 2004. We paid the special dividend on June 29, 2004. The 8% preferred stock participated on an as converted basis. The aggregate amount of the dividend was \$1.25 million, or \$0.09 per share of common stock and \$9.64 per share of 8% preferred stock. Other than the special dividend, we have not declared or paid any dividends on our common stock since our inception and do not intend to pay any dividends on our common stock in the foreseeable future.
- (5) Consists of bank borrowings and capital lease obligations, net of current portions, at December 31, 2008 and 2007. Consists of notes payable issued in connection with the acquisition of Speltz & Weis LLC at December 31, 2006 and 2005. Also includes capital lease obligations, net of current portions, at December 31, 2005.

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

We are a leading provider of operational and financial consulting services. We help clients in diverse industries improve performance, comply with complex regulations, resolve disputes, recover from distress, leverage technology, and stimulate growth. We team with our clients to deliver sustainable and measurable results. Our highly experienced professionals employ their expertise in healthcare administration, accounting, finance, economics and operations to provide our clients with specialized analyses and customized advice and solutions that are tailored to address each client's particular challenges and opportunities. Huron was formed in March 2002 and we commenced operations in May 2002. We were founded by a core group of experienced consultants, composed primarily of former Arthur Andersen LLP partners and professionals, along with equity sponsorship from a group of investors led by Lake Capital Management LLC. In October 2004, we completed our initial public offering and became a publicly traded company.

We provide our services and manage our business under four operating segments: Health and Education Consulting, Accounting and Financial Consulting (previously named Financial Consulting), Legal Consulting, and Corporate Consulting. See Item 1. Business Overview Our Services included elsewhere in this annual report on Form 10-K/A for a detailed discussion of our four segments.

We have grown significantly since we commenced operations through hiring and acquisitions of complementary businesses. Revenues in 2008 totaled \$615.5 million, a 22.0% increase from 2007 and a 113.3% increase from 2006. These increases resulted from a combination of organic growth and business acquisitions. During the years ended December 31, 2008, 2007 and 2006, we have completed the following acquisitions:

### MSGalt & Company, LLC

In April 2006, we acquired substantially all of the assets of MSGalt & Company, LLC (Galt), a specialized advisory firm that designs and implements corporate-wide programs to improve shareholder returns. With the acquisition of Galt, we expanded our value and service offerings to the offices of the chief executive officer and boards of Fortune 500 companies. This acquisition was consummated on April 3, 2006 and the results of operations of Galt have been included within our Corporate Consulting segment since that date. The aggregate purchase price of this acquisition was approximately \$43.3 million. We financed this acquisition with cash on hand and borrowings under our bank credit agreement. Additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met over a



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four-year period. Such amounts will be recorded as additional purchase price and an adjustment to goodwill. Also, additional payments may be made based on the amount of revenues the Company receives from referrals made by Galt employees over a four-year period. Such amounts will be recorded as an expense.

### **Document Review Consulting Services LLC and Aaxis Technology Inc.**

In July 2006, we acquired Document Review Consulting Services LLC ( DRCS ), a consulting firm that provides comprehensive document review using experienced contract reviewers. Also in July 2006, we acquired Aaxis Technologies Inc. ( Aaxis ). Aaxis provides full-service electronic data discovery support to litigation teams and corporate counsel with a focus on forensics and data gathering, end-to-end data processing, and information consulting. The acquisitions of DRCS and Aaxis enhanced our service offerings to the offices of the general counsel and law firms by helping them manage digital information in a comprehensive manner during litigation, investigations, mergers and acquisitions, and other major transactions.

### **Wellspring Partners LTD**

In January 2007, we acquired Wellspring Partners LTD ( Wellspring ), a management consulting firm specializing in integrated performance improvement services for hospitals and health systems. With the acquisition of Wellspring, we expanded our national presence in the healthcare provider sector and now provide a full complement of services to a wide spectrum of hospitals and multi-hospital systems. This acquisition was consummated on January 2, 2007 and the results of operations of Wellspring have been included within our Health and Education Consulting segment since that date. The aggregate purchase price of this acquisition was approximately \$135.1 million. We financed this acquisition with a combination of cash on hand and borrowings under our bank credit agreement. Additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met over a five-year period. Such amounts will be recorded as additional purchase price and an adjustment to goodwill.

Concurrent with the Stockamp acquisition described below, on July 8, 2008 we entered into an amendment to the Wellspring Stock Purchase Agreement. Effective January 1, 2009, in connection with the Stockamp acquisition, we combined Wellspring's revenue cycle business with Stockamp's revenue cycle business. As such, Wellspring will no longer be eligible for earn-out payments pertaining to that portion of the Wellspring business. In consideration for this, we paid Wellspring \$20.0 million through the issuance of 440,296 shares of our common stock. Additionally, we provided Wellspring with a protection against a decline in the value of the shares issued. We were not required to make further payments upon the lapse of the price protection in January 2009. See Item 7A. Quantitative and Qualitative Disclosure About Market Risk included elsewhere in this annual report on Form 10-K for further details relating to the protection. The earn-out provision, as amended, pertaining to the non-revenue cycle portion of Wellspring's business will remain in effect through December 31, 2011.

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

Also in January 2007, we acquired Glass & Associates, Inc. ( Glass ), a turnaround and restructuring consulting firm that provides advice and leadership to troubled businesses in the United States and Europe. With the acquisition of Glass, we expanded our position in the consulting and restructuring marketplace, as well as expanded our interim management capabilities to distressed companies in industries beyond healthcare. The stock purchase agreement for this acquisition was executed on January 2, 2007 and the transaction was consummated on January 9, 2007 upon the satisfaction of certain closing conditions. The results of operations of Glass have been included within our Corporate Consulting segment since January 2, 2007. The aggregate purchase price of this acquisition was approximately \$35.2 million. We financed this acquisition with a combination of cash on hand and borrowings under our bank credit agreement. Additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met over a four-year period. Such amounts will be recorded as additional purchase price and an adjustment to goodwill. Also, additional payments may be made based on the amount of revenues the Company receives from referrals made by certain employees of Glass over a four-year period. Such amounts will be recorded as an expense.

### **Callaway Partners, LLC**

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



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

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

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

The aggregate purchase price of this acquisition was approximately \$229.3 million, which included \$50.0 million paid through the issuance of 1,100,740 shares of our common stock. Of the 1,100,740 shares of common stock issued, 330,222 shares with an aggregate value of \$15.0 million were deposited into escrow for a period of one year, beginning on July 8, 2008, to secure certain indemnification obligations of Stockamp and its shareholders. The purchase price is subject to change based on the finalization of the net working capital adjustment. For the period beginning on the closing date and ending on December 31, 2011, additional purchase consideration may be payable to the selling shareholders if specific financial performance targets are met. Such amounts will be recorded as additional purchase price and an adjustment to goodwill. Additionally, we have provided Stockamp with a protection against a decline in the value of the shares issued. We were not required to make further payments upon the lapse of the price protection in January 2009 with respect to the shares not placed in escrow. The price protection with respect to the shares placed in escrow will lapse on July 9, 2009. See Item 7A. Quantitative and Qualitative Disclosure About Market Risk included elsewhere in this annual report on Form 10-K for further details relating to the protection. The cash portion of the purchase price was financed with borrowings under our credit agreement.

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

### **How We Generate Revenues**

A large portion of our revenues is generated by our full-time billable 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, consisting of finance and accounting consultants, specialized operational consultants and contract reviewers, all of whom work variable schedules, as needed by our clients. Other professionals also include our document review and electronic data discovery groups, as well as full-time employees who provide software support and maintenance services to our clients. Our document review and electronic data discovery groups generate revenues primarily based on number of hours worked and units produced, such as pages reviewed or amount of data processed. We translate the hours that these other professionals work on client engagements into a full-time equivalent measure that we use to manage our business. We refer to our full-time billable consultants and other professionals collectively as revenue-generating professionals.

Revenues generated by our full-time billable 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 full-time equivalents are largely dependent on the number of consultants we employ, their hours worked and billing rates charged, as well as the number of pages reviewed and amount of data processed in the case of our document review and electronic data discovery groups, respectively.

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

Time-and-expense billing arrangements require the client to pay based on either the number of hours worked, the number of pages reviewed, or the amount of data processed by our revenue-generating professionals at agreed upon rates. We recognize revenues under time-and-expense billing arrangements as the related services are rendered. Time-and-expense engagements represented 63.2%, 71.8% and 83.8% of our revenues in 2008, 2007 and 2006, respectively.





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In fixed-fee billing arrangements, we agree to a pre-established fee in exchange for a pre-determined set of professional services. We set the fees based on our estimates of the costs and timing for completing the engagements. It is the client's expectation in these engagements that the pre-established fee will not be exceeded except in mutually agreed upon circumstances. We recognize revenues under fixed-fee billing arrangements using a percentage-of-completion approach, which is based on our estimates of work completed to-date versus the total services to be provided under the engagement. For the years ended December 31, 2008, 2007 and 2006, fixed-fee engagements represented approximately 31.9%, 25.9% and 13.4%, respectively, of our revenues.

In performance-based fee billing arrangements, fees are tied to the attainment of contractually defined objectives. We enter into performance-based engagements in essentially two forms. First, we generally earn fees that are directly related to the savings formally acknowledged by the client as a result of adopting our recommendations for improving cost effectiveness in the procurement area. Second, we have performance-based engagements in which we earn a success fee when and if certain pre-defined outcomes occur. Often this type of success fee supplements time-and-expense or fixed-fee engagements. We do not recognize revenues under performance-based billing arrangements until all related performance criteria are met. Performance-based fee revenues represented 4.3%, 2.3% and 2.8% of our revenues in 2008, 2007 and 2006, respectively. We expect performance-based fee revenues to increase in the future due to our acquisition of Stockamp, which has a larger percentage of performance-based fee engagements. Performance-based fee engagements may cause significant variations in quarterly revenues and operating results due to the timing of achieving the performance-based criteria.

We also generate revenues from licensing our proprietary software to clients and from providing related training and support during the term of the consulting engagement. Revenues from software licenses are recognized ratably over the term of the related consulting services contract. Thereafter, clients pay an annual fee for software support and maintenance. Annual support and maintenance fee revenue is recognized ratably over the support period, which is generally one year. These fees are billed in advance and included in deferred revenues until recognized. Support and maintenance revenues represented 0.6% of our revenues in 2008 and none in 2007 and 2006.

Our quarterly results are impacted principally by our full-time billable consultants' utilization rate, the number of business days in each quarter and the number of our revenue-generating professionals who are available to work. Our utilization rate can be negatively affected by increased hiring because there is generally a transition period for new professionals that results in a temporary drop in our utilization rate. Our utilization rate can also be affected by seasonal variations in the demand for our services from our clients. For example, during the third and fourth quarters of the year, vacations taken by our clients can result in the deferral of activity on existing and new engagements, which would negatively affect our utilization rate. The number of business work days is also affected by the number of vacation days taken by our consultants and holidays in each quarter. We typically have fewer business work days available in the fourth quarter of the year, which can impact revenues during that period.

Time-and-expense engagements do not provide us with a high degree of predictability as to performance in future periods. Unexpected changes in the demand for our services can result in significant variations in utilization and revenues and present a challenge to optimal hiring and staffing. Moreover, our clients typically retain us on an engagement-by-engagement basis, rather than under long-term recurring contracts. The volume of work performed for any particular client can vary widely from period to period.

### **Reimbursable expenses**

Reimbursable expenses that are billed to clients, primarily relating to travel and out-of-pocket expenses incurred in connection with engagements, are included in total revenues and reimbursable expenses, and typically an equivalent amount of these expenses are included in total direct costs and reimbursable expenses. Reimbursable expenses also include those subcontractors who are billed to our clients at cost. We manage our business on the basis of revenues before reimbursable expenses. We believe this is the most accurate reflection of our services because it eliminates the effect of these reimbursable expenses that we bill to our clients at cost.

### **Total direct costs**

Our most significant expenses are costs classified as total direct costs. These total direct costs primarily include direct costs consisting of salaries, performance bonuses, payroll taxes and benefits for revenue-generating professionals, as well as fees paid to independent contractors that we retain to supplement these professionals, typically on an as-needed basis for specific client engagements. Direct costs also include share-based compensation, which represents the cost of restricted



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stock and stock option awards granted to our revenue-generating professionals. Compensation for share-based awards is amortized on a straight-line basis over the requisite service period, which is generally four years. As a result of the granting of restricted common stock awards and anticipated future awards, share-based compensation expense will increase in the future. Total direct costs also include intangible assets amortization relating to customer contracts, certain customer relationships, and software.

### **Operating expenses**

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

### **Segment results**

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include corporate office support costs, certain office facility costs, costs relating to accounting and finance, human resources, legal, marketing, information technology and company-wide business development functions, as well as costs related to overall corporate management.

## **CRITICAL ACCOUNTING POLICIES**

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The notes to our consolidated financial statements include disclosure of our significant accounting policies. We review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and 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 that there are four accounting policies that could be considered critical. These critical accounting policies relate to revenue recognition, allowances for doubtful accounts and unbilled services, carrying values of goodwill and other intangible assets, and valuation of net deferred tax assets.

### **Revenue Recognition**

We recognize revenues in accordance with Staff Accounting Bulletin, or SAB, No. 101, Revenue Recognition in Financial Statements, as amended by SAB No. 104, Revenue Recognition. Under SAB No. 104, revenue is recognized when persuasive evidence of an arrangement exists, the related services are provided, the price is fixed or determinable and collectibility is reasonably assured. We generate the majority of our revenues from providing professional services under three types of billing arrangements: time-and-expense, fixed-fee, and performance-based.

Time-and-expense billing arrangements require the client to pay based on either the number of hours worked, the number of pages reviewed, or the amount of data processed by our revenue-generating professionals at agreed-upon rates. We recognize revenues under time-and-expense arrangements as the related services are rendered.

In fixed-fee billing arrangements, we agree to a pre-established fee in exchange for a pre-determined set of professional services. We set the fees based on our estimates of the costs and timing for completing the engagements. It is the client's expectation in these engagements that the pre-established fee will not be exceeded except in mutually agreed upon circumstances. We recognize revenues under fixed-fee billing arrangements using a percentage-of-completion approach, which is based on our estimates of work completed to-date versus the total services to be provided under the engagement. Estimates of total engagement revenues and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and reasonably estimable.



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

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

We have arrangements with clients in which we provide multiple elements of services under one engagement contract. Revenues under these types of arrangements are allocated to each element based on the element's fair value in accordance with Emerging Issues Task Force Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" and recognized pursuant to the criteria described above.

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

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

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

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

Goodwill represents the excess of the cost of an acquired business over the net of the amounts assigned to assets acquired and liabilities assumed. Our goodwill balance as of December 31, 2008 was \$505.7 million. Pursuant to the provisions of Statement of Financial Accounting Standards, or SFAS, No. 142, "Goodwill and Other Intangible Assets," goodwill is required to be tested at the reporting unit level for impairment annually or whenever indications of impairment arise. Impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for this excess. In accordance with SFAS No. 142, we aggregate our business components into reporting units and test for goodwill impairment. In testing for a potential impairment of goodwill, we estimate the fair value of each of our reporting units and compare this fair value to the carrying value of the reporting units. In estimating the fair value of our reporting units, we use a discounted cash flow analysis, which involves estimating the expected after-tax cash flows that will be generated by each of the reporting units and then discounting these cash flows to present value. Significant estimates and projections are utilized when determining expected cash flows, such as revenue growth rates and profitability. As such, an impairment test involves considerable management judgment and estimates. Pursuant to our policy, we performed the annual goodwill impairment test as of April 30, 2008 and determined that no impairment of goodwill existed as of that date. Further, we evaluated whether any events have occurred or any circumstances have changed since April 30, 2008 that would indicate goodwill may have become impaired since our annual impairment test. In this evaluation, we considered qualitative factors such as any adverse change in the business climate, any loss of key personnel, and any unanticipated competition. Additionally, we considered quantitative factors such as our current estimates of the future profitability of our reporting units, our current stock price, and our market capitalization compared to our book value. Based on this evaluation, we determined that no indications of impairment have arisen since our annual goodwill impairment test.

Intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill. Our intangible assets, net of accumulated amortization, totaled \$32.4 million at December 31, 2008 and consist of customer contracts, customer relationships, non-competition agreements, tradenames, as well as technology and software. We use valuation techniques in estimating the initial fair value of acquired intangible assets. These valuations are primarily based on the present value of the estimated net cash flows expected to be derived from the client contracts and relationships, discounted for assumptions such as future customer attrition. We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Therefore, higher or earlier-than-expected customer attrition may result in higher future amortization charges or an impairment charge for customer-related intangible assets.



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Since our July 31, 2009 announcement of our intention to restate our financial statements, the price of our common stock has declined significantly. As such, we expect to engage in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009. See the discussion below under the heading *Restatement of Previously-Issued Financial Statements* in this *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* for a further discussion of the impairment test and the potential effects of a goodwill impairment.

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

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recorded for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. To the extent that deferred tax assets will not likely be recovered from future taxable income, a valuation allowance is established against such deferred tax assets.

In preparing financial statements, we exercise significant judgment in determining our provision for income taxes, deferred tax assets and liabilities, and the valuation allowance. In determining our provision for income taxes on an interim basis, we estimate our annual effective tax rate based on information available at each interim period. In determining whether a valuation allowance is warranted, we consider the historical and estimated future taxable income and other relevant factors of the operation recording the respective deferred tax asset. If actual results differ from our estimates, or if these estimates are adjusted in future periods, an adjustment to the valuation allowance may be required. To the extent that we increase the valuation allowance, our provision for income taxes will increase and our net income will decrease in the period that the adjustment is made. As of December 31, 2008, we have recorded net deferred tax assets totaling \$17.8 million and have established a valuation allowance of \$2.2 million primarily due to uncertainties relating to our ability to utilize deferred tax assets recorded for foreign operating loss carryforwards.

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

The discussion of our financial condition and results of operations below has been restated to reflect adjustments made to our consolidated financial statements for the years ended December 31, 2008, 2007 and 2006.

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

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

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

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

- 1) The selling shareholders redistributed portions of their acquisition-related payments among themselves in amounts that were not consistent with their ownership interests on the date we acquired the business (*Shareholder Payments*). These *Shareholder Payments* were dependent, in part, on continuing employment with the Company or on the achievement of personal performance measures.





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

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

In light of these determinations and given the magnitude of the accounting errors underlying the restatement, our Board of Directors concluded that it was appropriate for the Company to appoint a new Chairman, a new Chief Executive Officer, a new Chief Financial Officer and a new Chief Accounting Officer. Our Board of Directors and Gary Holdren, our then Chief Executive Officer, agreed that he should resign as Chairman of the Board and Chief Executive Officer. George Massaro, who was the then Vice Chairman of the Board of Directors, was elected as our Non-Executive Chairman of the Board of Directors. James Roth, one of the founders of the Company, was named Chief Executive Officer. James Rojas, another founder of the Company, was named Chief Financial Officer, succeeding Gary Burge who will remain as Treasurer and remain with the Company until the end of 2009. Wayne Lipski, previously Chief Accounting Officer, will be leaving the Company.

As discussed above, only a portion of the acquisition-related payments to selling shareholders was redistributed among themselves based on performance or employment while the balance was distributed in accordance with their ownership interests on the date we acquired the business. The total amounts of the acquisition-related payments received by the selling shareholders after the redistribution did not differ significantly from the amounts such selling shareholders would have received if the distribution of such portion of the acquisition-related payments had been made in proportion to their

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respective ownership interests. Under GAAP, however, we are required to recognize as non-cash compensation expense the entire amount of the acquisition-related payment that was subject to redistribution based on performance or employment and not merely the difference between the amount a selling shareholder received following such redistribution and the amount such selling shareholder would have received if such portion had been distributed in accordance with his ownership interests.

Accordingly, for the years ended December 31, 2008, 2007 and 2006, we recognized as non-cash compensation expense \$25.2 million, \$12.8 million and \$0.1 million, respectively, of Shareholder Payments, representing the full amount of the acquisition-related payments that was subject to redistribution based on performance or employment of the selling shareholders. Of these amounts, however, \$2.7 million, \$2.4 million and \$0.1 million were received by four selling shareholders, six selling shareholders and two selling shareholders in 2008, 2007 and 2006, respectively, in excess of the amounts that such selling shareholders would have received if such portion of the acquisition-related payments had been distributed solely in accordance with their ownership interests in the Acquired Businesses. Correspondingly, seven selling shareholders, five selling shareholders and one selling shareholder received amounts that were less than the amounts they would have received in light of their ownership percentages totaling \$2.7 million, \$2.4 million and \$0.1 million in 2008, 2007 and 2006, respectively.

For the years ended December 31, 2008, 2007 and 2006, we recognized \$5.4 million, \$4.8 million and \$3.7 million, respectively, of non-cash compensation expense for Employee Payments. These payments were received by eight employees in 2008, 25 employees in 2007, and 37 employees in 2006. Accordingly, certain selling shareholders received a correspondingly smaller amount of the acquisition-related payments than they would have received based on their ownership interests in the Acquired Businesses.

Based on the results of the Company's inquiry into the acquisition-related payments matter to date and the agreement amendments described below, we currently anticipate that future earn-outs will only be accounted for as additional purchase consideration and not also as non-cash compensation expense. Effective August 1, 2009, the selling shareholders of two of the Acquired Businesses each amended certain agreements related to the earn-outs to provide that future earn-outs will be distributed only to the applicable selling shareholders and only in accordance with their equity interests on the date we acquired the business with no required continuing employment, and no further Shareholder Payments or Employee Payments will be made. We expect to recognize approximately \$8.3 million of non-cash compensation expense during the first seven months of 2009 related to Shareholder Payments and Employee Payments for that period. In addition, we expect to incur a moderate increase in cash compensation expense in future periods related to Shareholder Payments and Employee Payments for such periods, which we currently estimate to be no more than \$4 million in each of 2009, 2010 and 2011. However, there can be no assurance that additional information will not be discovered that will require future acquisition-related payments pertaining to the Acquired Businesses to continue to be accounted for as non-cash compensation expense, which would be material to our results of operations through 2011. The earn-out payments for one of the Acquired Businesses are payable through March 31, 2010, and the earn-out payments for a second Acquired Business are payable through December 31, 2011. There are no additional earn-out obligations related to the other two Acquired Businesses. Additionally, as a result of the impact that our restatement may have on our business, we expect to incur a moderate increase in cash compensation expense to retain our top-performing employees. We also expect an increase in operating expenses, including legal fees, as a result of the Company's inquiries into the acquisition-related payments and the allocation of chargeable hours further described below, the restatement, the SEC investigation with respect to the circumstances that led to the restatement, the SEC inquiry into the allocation of chargeable hours and the private shareholder class action lawsuits in respect of the restatement.

As a result of the correction of these non-tax deductible errors, we recalculated our provision for income taxes for each of the quarterly periods using the annual effective income tax rate method in accordance with Statement of Financial Accounting Standards, or SFAS, No. 109,

Accounting for Income Taxes. As such, our interim quarterly provision for income taxes decreased in certain periods and increased in others, with a corresponding change in income tax receivable or payable. However, there is no change to our provision for income taxes or our tax accounts on an annual basis. While the correction of these errors significantly reduced our net income and earnings per share for each of the affected periods, it had no effect on our total assets, total liabilities, or total stockholders' equity on an annual basis. Further, the correction of these errors had no effect on our net cash flows. The tables below summarize the impact of the restatement on our consolidated statements of income for the years ended December 31, 2008, 2007 and 2006 (in thousands, except earnings per share). The effects of the restatement, including the tax adjustments, for each of the quarters during the years ended December 31, 2008, 2007 and 2006 are further presented in note

18. Restatement of Previously-Issued Quarterly Financial Statements (unaudited) in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data.

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2008	Three Months Ended (Unaudited)				Full Year 2008
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	
Shareholder Payments	\$ 3,681	\$ 11,546	\$ 4,708	5,253	\$ 25,188
Employee Payments	1,339	1,339	1,339	1,365	5,382
<b>Total Non-cash Compensation Expense</b>	<b>\$ 5,020</b>	<b>\$ 12,885</b>	<b>\$ 6,047</b>	<b>\$ 6,618</b>	<b>\$ 30,570</b>
Impact on Consolidated Statement Of Income:					
Increase in Direct Costs	\$ 5,020	\$ 12,885	\$ 6,047	\$ 6,618	\$ 30,570
Increase (Decrease) in Provision for Income Taxes	\$ 2,144	\$ (4,211)	\$ 345	\$ 1,722	\$
Decrease in Net Income	\$ (7,164)	\$ (8,674)	\$ (6,392)	\$ (8,340)	\$ (30,570)
Decrease in Basic Earnings Per Share	\$ (0.41)	\$ (0.50)	\$ (0.33)	\$ (0.44)	\$ (1.68)
Decrease in Diluted Earnings Per Share	\$ (0.39)	\$ (0.48)	\$ (0.32)	\$ (0.41)	\$ (1.60)

2007	Three Months Ended (Unaudited)				Full Year 2007
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	
Shareholder Payments	\$ 1,894	\$ 1,955	\$ 4,299	\$ 4,650	\$ 12,798
Employee Payments	1,178	1,167	1,295	1,183	4,823
<b>Total Non-cash Compensation Expense</b>	<b>\$ 3,072</b>	<b>\$ 3,122</b>	<b>\$ 5,594</b>	<b>\$ 5,833</b>	<b>\$ 17,621</b>
Impact on Consolidated Statement Of Income:					
Increase in Direct Costs	\$ 3,072	\$ 3,122	\$ 5,594	\$ 5,833	\$ 17,621
Increase (Decrease) in Provision for Income Taxes	\$ 678	\$ 722	\$ (822)	\$ (578)	\$
Decrease in Net Income	\$ (3,750)	\$ (3,844)	\$ (4,772)	\$ (5,255)	\$ (17,621)
Decrease in Basic Earnings Per Share	\$ (0.23)	\$ (0.23)	\$ (0.27)	\$ (0.31)	\$ (1.04)
Decrease in Diluted Earnings Per Share	\$ (0.21)	\$ (0.21)	\$ (0.27)	\$ (0.28)	\$ (0.97)

2006	Three Months Ended (Unaudited)				Full Year 2006
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	
Shareholder Payments	\$	\$ 28	\$ 28	\$ 29	\$ 85
Employee Payments	1,473	792	790	690	3,745
<b>Total Non-cash Compensation Expense</b>	<b>\$ 1,473</b>	<b>\$ 820</b>	<b>\$ 818</b>	<b>\$ 719</b>	<b>\$ 3,830</b>
Impact on Consolidated Statement Of Income:					
Increase in Direct Costs	\$ 1,473	\$ 820	\$ 818	\$ 719	\$ 3,830
Increase (Decrease) in Provision for Income Taxes	\$ (360)	\$ (14)	\$ 171	\$ 203	\$
Decrease in Net Income	\$ (1,113)	\$ (806)	\$ (989)	\$ (922)	\$ (3,830)
Decrease in Basic Earnings Per Share	\$ (0.07)	\$ (0.06)	\$ (0.05)	\$ (0.05)	\$ (0.23)
Decrease in Diluted Earnings Per Share	\$ (0.07)	\$ (0.04)	\$ (0.06)	\$ (0.05)	\$ (0.22)

On August 4, 2009, we signed an Acknowledgment and Consent Agreement with respect to the Credit Agreement. We requested an advance of \$6.0 million under the revolving credit facility to fund current working capital needs during the interim period while we restate our financial statements. The lenders agreed to this request subject to a reservation of rights under the Credit Agreement. This advance, together with collections on our accounts receivable, provided adequate working capital during the interim period prior to the restatement of our financial statements. We expect to be in full compliance with the financial covenants under the Credit Agreement once the restatement is completed and compliance certificates for the second quarter of 2009 are provided to the lenders. We have been engaging, and expect to continue to engage, in regular discussions with our lenders.

On July 31, 2009, immediately prior to our announcement of our intention to restate our financial statements, the price of our common stock was \$44.35 per share. As of the close of business on August 3, 2009, the business day next following such announcement, the price of our common stock was \$13.69 per share. As a result of the significant decline in the price of our common stock, we expect to engage in an impairment analysis with respect to the carrying value of our goodwill in connection with the preparation of our financial statements for the quarter ended September 30, 2009. If following such analysis we are required to record a non-cash goodwill impairment charge, we may not be in compliance with the financial covenants in the Credit Agreement. In the absence of an amendment or waiver from our lenders, failure to comply with such covenants may result in (1) a default interest rate of 2% being charged in addition to the interest rate as determined



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under the Credit Agreement on all of our outstanding indebtedness under the Credit Agreement, (2) our not being able to make additional borrowings under the Credit Agreement, which we rely on to fund our operations, and (3) the lenders requiring us to repay our outstanding indebtedness under the Credit Agreement, which totaled \$295 million as of June 30, 2009. There can be no assurance that we will remain in compliance with the financial covenants under the Credit Agreement or, if we are not, that we will obtain the necessary amendments or waivers and, even if we are able to obtain them, such amendments or waivers may subject us to terms materially less favorable to us than those in our current agreement. Such amended terms could expose us to significant risks related to increased interest rates, may require us to dedicate a larger portion of our cash from operations to service indebtedness and may limit our ability to obtain additional funding under the Credit Agreement. A discussion of the risks and uncertainties relating to the Credit Agreement and our ability to borrow funds under the Credit Agreement is set forth in Item 1A. Risk Factors .

The SEC is commencing an investigation with respect to the circumstances that led to the restatement. In addition to the SEC investigation, we conducted a separate inquiry, in response to an inquiry from the SEC, into the allocation of chargeable hours. This matter has no impact on billings to our clients, but could impact the timing of when revenue is recognized. Based on our internal inquiry, which is substantially complete, we have concluded that an adjustment to our historical financial statements is not required with respect to this matter. The SEC inquiry with respect to the allocation of chargeable hours is ongoing. We intend to cooperate fully with the SEC in its investigation with respect to the circumstances that led to the restatement and its inquiry into the allocation of chargeable hours. In addition, several purported shareholder class action complaints have been filed in connection with our restatement in the United States District Court for the Northern District of Illinois, which assert claims under Section 10(b) and Section 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder and contend that the Company and the individual defendants issued false and misleading statements regarding the Company's financial results and compliance with GAAP. We intend to defend vigorously the actions. See Item 3. Legal Proceedings and note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data for a description of these lawsuits.

Given the uncertain nature of the SEC investigation with respect to the circumstances that led to the restatement, the SEC inquiry into the allocation of chargeable hours and the private shareholder class action lawsuits in respect of the restatement, and the uncertainties related to the incurrence and amount of loss, including with respect to the imposition of fines, penalties, damages, administrative remedies and liabilities for additional amounts, with respect to the SEC investigation, the SEC inquiry and the private lawsuits, we are unable to predict the ultimate outcome of the SEC investigation, the SEC inquiry or the private lawsuits, determine whether a liability has been incurred or make a reasonable estimate of the liability that could result from an unfavorable outcome in the SEC investigation, the SEC inquiry or the private lawsuits. Any such liability could be material. See Item 1A. Risk Factors for a discussion of certain risks and uncertainties relating to the SEC investigation, the SEC inquiry and the private lawsuits and certain other risks and uncertainties that are heightened by the SEC investigation, the SEC inquiry and the private lawsuits.

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The tables below summarize the impact of the restatement on segment operating income and segment operating margin for the years ended December 31, 2008, 2007 and 2006. The restatement had no impact on segment revenues and consolidated revenues.

(in thousands)		Health and Education Consulting	Accounting & Financial Consulting	Legal Consulting	Corporate Consulting	Total
<b>Year Ended 2008</b>						
Revenues before reimbursable		\$ 275,510	\$ 134,011	\$ 121,413	\$ 84,542	\$ 615,476
Operating income	As reported	\$ 108,784	\$ 32,010	\$ 37,780	\$ 24,426	\$ 203,000
Adjustments <sup>(1)</sup>		(14,966)	(11,554)		(4,050)	(30,570)
Operating income	As restated	\$ 93,818	\$ 20,456	\$ 37,780	\$ 20,376	\$ 172,430
Operating margin	As reported	39.5%	23.9%	31.1%	28.9%	
Adjustments <sup>(1)</sup>		(5.4%)	(8.6%)		(4.8%)	
Operating margin	As restated	34.1%	15.3%	31.1%	24.1%	
<b>Year Ended 2007</b>						
Revenues before reimbursable		\$ 181,439	\$ 156,013	\$ 89,849	\$ 76,991	\$ 504,292
Operating income	As reported	\$ 66,289	\$ 60,873	\$ 28,293	\$ 19,961	\$ 175,416
Adjustments <sup>(1)</sup>		(12,819)	(2,195)		(2,607)	17,621
Operating income	As restated	\$ 53,470	\$ 58,678	\$ 28,293	\$ 17,354	\$ 157,795
Operating margin	As reported	36.5%	39.0%	31.5%	25.9%	
Adjustments <sup>(1)</sup>		(7.0%)	(1.4%)		(3.4%)	
Operating margin	As restated	29.5%	37.6%	31.5%	22.5%	
<b>Year Ended 2006</b>						
Revenues before reimbursable		\$ 84,108	\$ 109,220	\$ 47,774	\$ 47,486	\$ 288,588
Operating income	As reported	\$ 25,375	\$ 50,304	\$ 13,884	\$ 17,816	\$ 107,379
Adjustments <sup>(1)</sup>		(2,260)			(1,570)	(3,830)
Operating income	As restated	\$ 23,115	\$ 50,304	\$ 13,884	\$ 16,246	\$ 103,549
Operating margin	As reported	30.2%	46.1%	29.1%	37.5%	
Adjustments <sup>(1)</sup>		(2.7%)			(3.3%)	
Operating margin	As restated	27.5%	46.1%	29.1%	34.2%	

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Consists of non-cash compensation expense representing Shareholder Payments and Employee Payments described above under Restatement of Previously-Issued Financial Statements.



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The following table sets forth restated selected segment and consolidated operating results for the periods indicated, as well as other operating data, which was not affected by the restatement.

Segment and Consolidated Operating Results	Year Ended December 31,		
	2008 (Restated)	2007 (Restated)	2006 (Restated)
<b>(in thousands):</b>			
<b>Revenues and reimbursable expenses:</b>			
Health and Education Consulting	\$ 275,510	\$ 181,439	\$ 84,108
Accounting and Financial Consulting	134,011	156,013	109,220
Legal Consulting	121,413	89,849	47,774
Corporate Consulting	84,542	76,991	47,486
Total revenues	615,476	504,292	288,588
Total reimbursable expenses	56,700	43,661	33,330
Total revenues and reimbursable expenses	\$ 672,176	\$ 547,953	\$ 321,918
<b>Operating income:</b>			
Health and Education Consulting	\$ 93,818	\$ 53,470	\$ 23,115
Accounting and Financial Consulting	20,456	58,678	50,304
Legal Consulting	37,780	28,293	13,884
Corporate Consulting	20,376	17,354	16,246
Total segment operating income	172,430	157,795	103,549
Operating expenses not allocated to segments	111,356	91,675	59,870
<b>Operating income</b>	<b>\$ 61,074</b>	<b>\$ 66,120</b>	<b>\$ 43,679</b>
<b>Other Operating Data</b>			
<b>Number of full-time billable consultants (at period end) <sup>(1)</sup>:</b>			
Health and Education Consulting	918	439	274
Accounting and Financial Consulting	306	367	268
Legal Consulting	163	173	121
Corporate Consulting	171	230	131
Total	1,558	1,209	794
<b>Average number of full-time billable consultants (for the period) <sup>(1)</sup>:</b>			
Health and Education Consulting	653	381	231
Accounting and Financial Consulting	338	315	239
Legal Consulting	164	139	112
Corporate Consulting	207	191	117
Total	1,362	1,026	699
<b>Full-time billable consultant utilization rate <sup>(2)</sup>:</b>			
Health and Education Consulting	79.7%	79.4%	79.3%
Accounting and Financial Consulting	53.4%	73.7%	81.6%
Legal Consulting	62.8%	73.4%	71.7%
Corporate Consulting	64.2%	67.7%	72.7%
Total	68.8%	74.6%	77.8%



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	Year Ended December 31,		
	2008	2007	2006
<b>Other Operating Data (continued):</b>			
<b>Full-time billable consultant average billing rate per hour <sup>(3)</sup>:</b>			
Health and Education Consulting	\$ 251	\$ 271	\$ 231
Accounting and Financial Consulting	\$ 271	\$ 290	\$ 285
Legal Consulting	\$ 235	\$ 240	\$ 232
Corporate Consulting	\$ 322	\$ 303	\$ 307
Total	\$ 263	\$ 278	\$ 263
<b>Revenue per full-time billable consultant (in thousands):</b>			
Health and Education Consulting	\$ 381	\$ 407	\$ 345
Accounting and Financial Consulting	\$ 267	\$ 398	\$ 443
Legal Consulting	\$ 269	\$ 305	\$ 297
Corporate Consulting	\$ 394	\$ 390	\$ 403
Total	\$ 341	\$ 387	\$ 381
<b>Average number of full-time equivalents (for the period) <sup>(4)</sup>:</b>			
Health and Education Consulting	71	60	14
Accounting and Financial Consulting	176	125	7
Legal Consulting	583	338	120
Corporate Consulting	8	7	1
Total	838	530	142
<b>Revenue per full-time equivalents (in thousands):</b>			
Health and Education Consulting	\$ 379	\$ 438	\$ 319
Accounting and Financial Consulting	\$ 249	\$ 246	\$ 474
Legal Consulting	\$ 133	\$ 141	\$ 121
Corporate Consulting	\$ 385	\$ 344	\$ 282
Total	\$ 180	\$ 202	\$ 159

- (1) Consists of our full-time professionals who provide consulting services and generate revenues based on the number of hours worked.
- (2) Utilization rate for our full-time billable consultants is calculated by dividing the number of hours all our full-time billable consultants worked on client assignments during a period by the total available working hours for all of these consultants during the same period, assuming a forty-hour work week, less paid holidays and vacation days.
- (3) Average billing rate per hour for our full-time billable consultants is calculated by dividing revenues for a period by the number of hours worked on client assignments during the same period.
- (4) Consists of consultants who work variable schedules as needed by our clients, as well as contract reviewers and other professionals who generate revenues primarily based on number of hours worked and units produced, such as pages reviewed and data processed. Also includes full-time employees who provide software support and maintenance services to our clients.

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

#### **Revenues**

Revenues increased \$111.2 million, or 22.0%, to \$615.5 million for the year ended December 31, 2008 from \$504.3 million for the year ended December 31, 2007. We acquired Stockamp on July 8, 2008 and, therefore, revenues for 2008 included six months of revenues generated by Stockamp while revenues for 2007 did not include any revenues from Stockamp. We acquired Callaway on July 29, 2007 and therefore, revenues for 2008 included twelve months of revenues generated by Callaway while revenues for 2007 included five months of revenues generated by Callaway.

Of the overall \$111.2 million increase in revenues, \$66.9 million was attributable to our full-time billable consultants and \$44.3 million was attributable to our full-time equivalents. Full-time equivalents consist of finance and accounting consultants, specialized operational consultants and contract reviewers, all of whom work variable schedules as needed by our clients. Full-time equivalents also include our document review and electronic data discovery groups, as well as full-time employees who provide software support and maintenance services to our clients. The \$66.9 million increase in full-time billable consultant revenues was attributable to an increase in the number of consultants, particularly in our Health and Education Consulting segment resulting from internal growth and our acquisition of Stockamp, partially offset by a decline in both the utilization rate and the average billing rate of our consultants. The \$44.3 million increase in full-time equivalent revenues resulted from greater demand and usage of contract reviewers in our document review group, as well as from our acquisition of Callaway, which heavily utilizes variable, on-demand consultants.

During 2008, our Accounting and Financial Consulting segment experienced a 14.1% decline in revenues as we had several large engagements that wound down and which have not been replaced by similarly-sized engagements. This decline in revenues was more than offset by increases in revenues in our Health and Education and Legal Consulting segments as demand for healthcare and electronic discovery services continue to grow.

#### **Total direct costs**

Our direct costs increased \$80.0 million, or 25.7%, to \$391.0 million for the year ended December 31, 2008 from \$311.0 million for the year ended December 31, 2007. Approximately \$49.7 million of the increase was attributable to the increase in the average number of revenue-generating professionals and the promotion of our employees during the year, including ten to the managing director level effective January 1, 2008, and their related salaries and benefits costs. Additionally, \$11.2 million of the increase in direct costs was attributable to an increased usage of independent contractors. Share-based compensation expense associated with our revenue-generating professionals increased \$4.0 million, or 33.1%, to \$16.1 million during 2008 from \$12.1 million during 2007. Additionally, we recorded non-cash compensation expense totaling \$30.6 million and \$17.6 million during 2008 and 2007, respectively, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements.

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

#### **Operating expenses**

Selling, general and administrative expenses increased \$28.9 million, or 28.4%, to \$131.1 million for the year ended December 31, 2008 from \$102.2 million for the year ended December 31, 2007. Promotional and marketing expenses increased \$8.5 million, or 58.6%, to \$23.0 million for 2008 from \$14.5 million for 2007, as we continue to build our brand. Approximately \$4.7 million of the increase in selling, general and administrative costs was due to an increase in non-revenue-generating professionals and their related compensation and benefits costs. We added a number of non-revenue-generating professionals during the past year to support our growth. The remaining increase in selling, general and administrative costs during 2008 compared to 2007 was due to a \$4.8 million increase in facilities costs, a \$2.9 million increase in share-based compensation expense, a \$2.8 million increase attributable to company and team meetings, and a \$2.8 million increase in our provision for bad debt. Additionally, during the third quarter of 2008, we reduced our workforce to balance our employee base with current revenue expectations, market demand and areas of focus. This reduction included the elimination of the operational consulting group within the Corporate Consulting segment and a reduction in the number of consultants in various other practice groups. Restructuring charges associated with these actions were \$2.3 million for the year ended December 31, 2008.



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Depreciation expense increased \$4.8 million, or 44.0%, to \$15.7 million for the year ended December 31, 2008 from \$10.9 million for the year ended December 31, 2007 as computers, network equipment, furniture and fixtures, and leasehold improvements were added to support our increase in employees. Non-direct intangible assets amortization expense for 2008 and 2007 was \$7.6 million and \$6.3 million, respectively. The increase in 2008 was attributable to amortization of intangible assets, including customer relationships, non-competition agreements and tradenames acquired in connection with our acquisitions.

### **Operating income**

Operating income decreased \$5.0 million, or 7.6%, to \$61.1 million for the year ended December 31, 2008 from \$66.1 million for the year ended December 31, 2007. Operating margin, which is defined as operating income expressed as a percentage of revenues, decreased to 9.9% in 2008 from 13.1% in 2007. The decline in operating margin was attributable to higher non-cash compensation expense and selling, general and administrative expenses as a percentage of revenues, coupled with the restructuring charges described above. Non-cash compensation expense totaling \$30.6 million in 2008 and \$17.6 million in 2007, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, reduced our operating margin by 500 basis points in 2008 and 350 basis points in 2007.

Due to the costs associated with the factors listed below, we expect our direct costs and operating expenses to continue to increase in 2009 as compared to 2008.

During 2008, we increased the number of our full-time revenue-generating managing directors from 163 at December 31, 2007 to 177 at December 31, 2008 through new hires and business acquisitions. In addition, in January 2009, we promoted 17 of our revenue-generating directors to the managing director level. During 2009, we expect to continue to hire additional managing directors and anticipate that some of them may not be in a position to generate revenues for a period of six months or more, as they will initially focus their time on new sales efforts. Additionally, a significant number of the managing directors who we will hire in 2009 may be subject to restrictive covenants and may require additional time to establish new client relationships.

In 2009, we expect to hire additional managers, associates and analysts in certain practice areas to support and better leverage our directors and managing directors.

We expect to continue to use variable on-demand consultants, contract reviewers and independent contractors to supplement our full-time staff as needed based on demand for our services.

To attract, retain and recognize talented professionals, we have and will continue to use share-based awards as a component of our compensation program. If the price of Huron's common stock increases, share-based compensation expense associated with future awards may also increase.

As described above under Restatement of Previously-Issued Financial Statements, no further Shareholder Payments or Employee Payments will be made as result of amendments to the agreements among the selling shareholders effective August 1, 2009. We expect to recognize approximately \$8.3 million of non-cash compensation expense during the first seven months of 2009 related to Shareholder Payments and Employee Payments for that period. In addition, we expect to incur a moderate increase in cash compensation expense in future periods related to Shareholder Payments and Employee Payments for such periods, which we currently estimate to be no more than \$4 million in each of 2009, 2010 and 2011. However, there can be no assurance that additional information will not be discovered that will require future acquisition-related payments pertaining to the Acquired Businesses to continue to be accounted for as non-cash compensation expense, which would be material to our results of operations through 2011. Additionally, as a result of the impact that our restatement may have on our business, we expect to incur a moderate increase in cash compensation expense to retain our top-performing employees. We also expect an increase in operating expenses, including legal fees, as a result of the Company's inquiries into the acquisition-related payments and the allocation of chargeable hours, the restatement, the SEC investigation with respect to the circumstances that led to the restatement, the SEC inquiry into the allocation of chargeable hours and the private shareholder class action lawsuits in respect of the restatement.

### **Other expense**

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Other expense increased \$8.3 million, or 100.2%, to \$16.5 million for the year ended December 31, 2008 from \$8.2 million for the year ended December 31, 2007. Of the \$8.3 million increase, \$5.5 million was attributable to an increase in interest expense from higher levels of borrowings during 2008, partially offset by a decrease in interest rates. Additionally, we incurred a \$1.8 million loss due to a decline in the market value of our investments that are used to fund our deferred compensation liability. This loss was largely offset by a \$1.5 million reduction in direct costs as our corresponding deferred compensation liability decreased. The remaining increase in other expense was due to net foreign currency transaction losses totaling \$0.9 million.

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

### **Provision for income taxes**

Our effective income tax rate increased to 77.4% in 2008 from 58.0% in 2007. The higher effective income tax rate in 2008 was attributable to an increase in the valuation allowance for foreign losses, foreign tax credit limitations resulting from our expansion in foreign countries, and the non-deductibility of certain items including market losses related to investments used to fund our deferred compensation liability. Additionally, non-cash compensation expense totaling \$30.6 million in 2008 and \$17.6 million in 2007, representing Shareholder Payments and Employee Payments as described above under "Restatement of Previously-Issued Financial Statements", are not tax deductible because these payments were not made by us. As such, these charges increased our effective income tax rate by 3,150 basis points in 2008 and 1,350 basis points in 2007.

### **Net income**

Net income decreased \$14.2 million, or 58.5%, to \$10.1 million for the year ended December 31, 2008 from \$24.3 million for the year ended December 31, 2007, primarily due to higher non-cash compensation expense totaling \$30.6 million in 2008 compared to \$17.6 million in 2007, representing Shareholder Payments and Employee Payments as described above under "Restatement of Previously-Issued Financial Statements". Diluted earnings per share decreased 60.7% to \$0.53 for the year ended December 31, 2008 from \$1.35 for the year ended December 31, 2007. The decrease in earnings per share was attributable to the decrease in net income, coupled with the dilutive impact of the shares issued in connection with the acquisition of Stockamp and the amendment to the Wellspring Stock Purchase Agreement. Non-cash compensation expense reduced diluted earnings per share by \$1.60 in 2008 and \$0.97 in 2007.

### **Segment Results**

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

##### **Revenues**

Health and Education Consulting segment revenues increased \$94.1 million, or 51.8%, to \$275.5 million for the year ended December 31, 2008 from \$181.4 million for the year ended December 31, 2007. Revenues for 2008 included six months of revenues from our acquisition of Stockamp while revenues for 2007 did not include any revenues from Stockamp. For 2008, revenues from time-and-expense engagements, fixed-fee engagements, performance-based engagements and software and maintenance arrangements represented 40.0%, 50.0%, 8.6% and 1.4% of this segment's revenues, respectively, compared to 51.3%, 44.8%, 3.9% and 0%, respectively, for 2007.

Of the overall \$94.1 million increase in revenues, \$93.5 million was attributable to our full-time billable consultants and \$0.6 million was attributable to our full-time equivalents. The \$93.5 million increase in full-time billable consultant revenues reflected an increase in the number of consultants, partially offset by a decrease in the average billing rate per hour for this segment.

##### **Operating income**

Health and Education Consulting segment operating income increased \$40.3 million, or 75.5%, to \$93.8 million for the year ended December 31, 2008 from \$53.5 million for the year ended December 31, 2007. The Health and Education Consulting segment operating margin, defined as segment operating income expressed as a percentage of segment revenues, increased to 34.1% in 2008 from 29.5% in 2007, primarily due to lower cash compensation expense and non-cash compensation expense as a percentage of revenues. This increase was partially offset by higher promotion and marketing expense. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under "Restatement of Previously-Issued Financial Statements", for the Health and Education Consulting segment totaled \$15.0 million and \$12.8 million in 2008 and 2007, respectively, and reduced this segment's operating margin by 540 basis points and 700 basis points in 2008 and 2007, respectively.





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### **Accounting and Financial Consulting**

#### **Revenues**

Accounting and Financial Consulting segment revenues decreased \$22.0 million, or 14.1%, to \$134.0 million for the year ended December 31, 2008 from \$156.0 million for the year ended December 31, 2007. We acquired Callaway on July 29, 2007 and therefore, revenues for 2008 included revenues generated by Callaway while revenues for 2007 included five months of revenues generated by Callaway. For both 2008 and 2007, most of this segment's revenues were from time-and-expense engagements.

Of the overall \$22.0 million decrease in revenues, \$35.1 million was attributable to our full-time billable consultants, which was partially offset by an increase of \$13.1 million attributable to our full-time equivalents. The \$35.1 million decrease in full-time billable consultant revenues was primarily due to a decline in both the utilization rate and the average billing rate per hour for this segment. The \$13.1 million increase in full-time equivalent revenues resulted from our acquisition of Callaway, which heavily utilizes variable, on demands consultants.

#### **Operating income**

Accounting and Financial Consulting segment operating income decreased \$38.2 million, or 65.1%, to \$20.5 million for the year ended December 31, 2008 from \$58.7 million for the year ended December 31, 2007. Operating margin for the Accounting and Financial Consulting segment decreased to 15.3% in 2008 from 37.6% in 2007. The decline was attributable to higher non-cash compensation expense and lower utilization of this segment's full-time billable consultants as we added a number of consultants in the previous years to staff several large engagements and to support our anticipated growth. These large engagements have since wound down and have not been replaced by similarly-sized engagements. The decline in operating margin was also attributable to a lower average billing rate per hour for this segment as described above. Higher share-based compensation expense and promotion and marketing expense also contributed to the decline in this segment's operating margin. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Accounting and Financial Consulting segment totaled \$11.6 million and \$2.2 million in 2008 and 2007, respectively, and reduced this segment's operating margin by 860 basis points and 140 basis points in 2008 and 2007, respectively.

### **Legal Consulting**

#### **Revenues**

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

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

#### **Operating income**

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

### **Corporate Consulting**

#### **Revenues**

Corporate Consulting segment revenues increased \$7.5 million, or 9.8%, to \$84.5 million for the year ended December 31, 2008 from \$77.0 million for the year ended December 31, 2007. For 2008, revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 47.4%, 50.9% and 1.7% of this segment's revenues, respectively, compared to 45.3%, 50.9% and

3.8%, respectively, for 2007.

Of the overall \$7.5 million increase in revenues, \$6.9 million was attributable to our full-time billable consultants and \$0.6 million was attributable to our full-time equivalents. The \$6.9 million increase in full-time billable consultant revenues reflected an increase in both the average number of consultants and the average billing rate per hour for this segment, partially offset by a decline in the utilization rate of this segment's billable consultants.

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### **Operating income**

Corporate Consulting segment operating income increased \$3.0 million, or 17.4%, to \$20.4 million for the year ended December 31, 2008 from \$17.4 million for the year ended December 31, 2007. Operating margin for the Corporate Consulting segment increased to 24.1% in 2008 from 22.5% in 2007. The unfavorable impact of higher non-cash compensation expense and restructuring charges on this segment's operating margin was largely offset by lower compensation cost as a percentage of revenues. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Corporate Consulting segment totaled \$4.1 million and \$2.6 million in 2008 and 2007, respectively, and reduced this segment's operating margin by 480 basis points and 340 basis points in 2008 and 2007, respectively.

### **Year ended December 31, 2007 compared to year ended December 31, 2006**

#### **Revenues**

Revenues increased \$215.7 million, or 74.7%, to \$504.3 million for the year ended December 31, 2007 from \$288.6 million for the year ended December 31, 2006. Revenues for 2007 included revenues from our acquisitions of Wellspring and Glass since January 2007 and Callaway since August 2007. Revenues for 2006 and 2007 included revenues from our acquisition of Galt since April 2006 and revenues from our acquisitions of DRCS and Aaxis since July 2006.

Of the overall \$215.7 million increase in revenues, \$131.3 million was attributable to our full-time billable consultants and \$84.4 million was attributable to our full-time equivalents. The \$131.3 million increase in full-time billable consultant revenues reflected growing demand for our services from new and existing clients and our acquisitions. This increase was attributable to an increase in the number of consultants across all of our segments due to internal growth and our acquisitions and an increase in our average billing rate, partially offset by a decline in the utilization rate of our billable consultants. The \$84.4 million increase in full-time equivalent revenues was due to increased demand and usage of contract reviewers in our document review group and our acquisitions of Callaway and Wellspring, both of which utilize variable, on-demand consultants and independent contractors.

#### **Total direct costs**

Our direct costs increased \$143.6 million, or 85.8%, to \$311.0 million for the year ended December 31, 2007 from \$167.4 million for the year ended December 31, 2006. Approximately \$116.0 million of the increase was attributable to the increase in the number of full-time billable consultants and greater utilization of variable, on-demand consultants and contract reviewers, as described above, as well as the promotion of our employees during the year, including 16 to the managing director level effective January 1, 2007, and their related salaries, bonuses and benefit costs. Share-based compensation expense associated with our revenue-generating professionals increased \$5.4 million, or 80.6%, to \$12.1 million during 2007 from \$6.7 million during 2006. Additionally, we recorded non-cash compensation expense totaling \$17.6 million and \$3.8 million during 2007 and 2006, respectively, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements.

Total direct costs for the year ended December 31, 2007 included \$8.0 million of intangible assets amortization expense, primarily attributable to the acquisitions of Wellspring, Glass and Callaway, in which customer contracts totaling \$7.6 million were acquired and fully amortized during the year. Intangible assets amortization for the year ended December 31, 2006 was \$2.2 million, primarily attributable to the acquisitions of Galt, DRCS and Aaxis, in which customer contracts totaling \$2.1 million were acquired and fully amortized during the year.

#### **Operating expenses**

Selling, general and administrative expenses increased \$36.3 million, or 55.0%, to \$102.2 million for the year ended December 31, 2007 from \$65.9 million for the year ended December 31, 2006. Approximately \$9.6 million of this increase was due to an increase in non-revenue-generating professionals and their related salaries, bonuses and benefits costs. We added a number of non-revenue-generating professionals during the past year to support our growth. Promotional and marketing expenses increased \$6.5 million, or 81.3%, to \$14.5 million for 2007 from \$8.0 million for 2006, as we continue to build our brand. Share-based compensation expense associated with our non-revenue-generating professionals increased \$4.6 million, or 148.4%, to \$7.7 million during 2007 from \$3.1 million during 2006. The remaining increase in selling, general and administrative costs during 2007 compared to 2006 was due to a \$3.4 million increase in facilities costs, a \$1.7 million increase in legal fees, a \$1.6 million increase attributable to outside professional services, and a \$1.2 million increase reflecting higher severance costs. These increases were partially offset by the absence of secondary offering costs. During the first quarter of 2006 in connection with a secondary offering of our common stock, we incurred costs totaling \$0.6 million after tax, or \$0.03 per diluted share.



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Depreciation expense increased \$4.0 million, or 58.0%, to \$10.9 million for the year ended December 31, 2007 from \$6.9 million for the year ended December 31, 2006 as computers, network equipment, furniture and fixtures, and leasehold improvements were added to support our increase in employees. Non-direct intangible assets amortization expense for 2007 and 2006 was \$6.3 million and \$2.3 million, respectively. The increase in 2007 was attributable to amortization of intangible assets, including customer relationships, non-competition agreements and a tradename, acquired in connection with our business acquisitions in 2007.

### **Operating income**

Operating income increased \$22.4 million, or 51.4%, to \$66.1 million for the year ended December 31, 2007 from \$43.7 million for the year ended December 31, 2006. The increase in operating income was primarily due to the increase in revenues, partially offset by the increases in direct costs, including non-cash compensation expense, and operating expenses as discussed above. Operating margin, decreased to 13.1% in 2007 from 15.1% in 2006. The decline in operating margin was attributable to higher non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements. Non-cash compensation expense totaling \$17.6 million in 2007 and \$3.8 million in 2006 reduced our operating margin by 350 basis points in 2007 and 140 basis points in 2006. Additionally, lower selling, general and administrative expenses as a percentage of revenues in 2007 were offset by increases in salaries and related costs, as well as an increase in intangible assets amortization expense as discussed above.

### **Provision for income taxes**

Our effective income tax rate increased to 58.0% in 2007 from 46.8% in 2006. The higher effective income tax rate in 2007 was primarily attributable to higher non-cash compensation expense, which is not tax deductible because the Shareholder Payments and Employee Payments resulting in the non-cash compensation expense were not made by us. These charges increased our effective income tax rate by 1,350 basis points in 2007 and 380 basis points in 2006.

### **Net income**

Net income increased \$1.4 million, or 6.2%, to \$24.3 million for the year ended December 31, 2007 from \$22.9 million for the year ended December 31, 2006. The increase in net income was primarily due to the increase in revenues, which was largely offset by higher non-cash compensation expense totaling \$17.6 million in 2007 and \$3.8 million in 2006, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements. The increase in our effective income tax rate as described above also had an unfavorable impact on net income. Diluted earnings per share increased 2.3% to \$1.35 for the year ended December 31, 2007 from \$1.32 for the year ended December 31, 2006. Non-cash compensation expense reduced diluted earnings per share by \$0.97 in 2007 and \$0.22 in 2006. Additionally, diluted earnings per share was slightly reduced by an increase in weighted-average shares outstanding.

### **Segment results**

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

##### **Revenues**

Health and Education Consulting segment revenues, which include revenues from our acquisition of Wellspring since January 2007, increased \$97.3 million, or 115.7%, to \$181.4 million for the year ended December 31, 2007 from \$84.1 million for the year ended December 31, 2006. For 2007, revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 51.3%, 44.8% and 3.9% of this segment's revenues, respectively, compared to 77.3%, 17.3% and 5.4%, respectively, for 2006. The increase in fixed-fee engagements primarily reflects the acquisition of Wellspring, which has a larger percentage of these engagements.

Of the overall \$97.3 million increase in revenues, \$75.5 million was attributable to our full-time billable consultants and \$21.8 million was attributable to our full-time equivalents. The \$75.5 million increase in full-time billable consultant revenues reflected an increase in the number of consultants and an increase in the average billing rate per hour for this segment. The increase in the average billing rate per hour was partially due to \$3.2 million of performance-based fees earned during the third quarter of 2007 upon achieving targeted levels of cost savings on two engagements. The \$21.8 million increase in full-time equivalent revenues resulted from our acquisition of Wellspring, which utilizes independent contractors.



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### **Operating income**

Health and Education Consulting segment operating income increased \$30.4 million, or 131.3%, to \$53.5 million for the year ended December 31, 2007 from \$23.1 million for the year ended December 31, 2006. Operating margin for the Health and Education Consulting segment increased to 29.5% in 2007 from 27.5% in 2006. The increase was partially due to \$3.2 million of performance-based fees earned during the third quarter of 2007 as discussed above. This increase was largely offset by non-cash compensation expense and amortization of customer contracts relating to the Wellspring acquisition. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Health and Education Consulting segment totaled \$12.8 million and \$2.3 million in 2008 and 2007, respectively, and reduced this segment's operating margin by 700 basis points and 270 basis points in 2008 and 2007, respectively.

### **Accounting and Financial Consulting**

#### **Revenues**

Accounting and Financial Consulting segment revenues, which include revenues from our acquisition of Callaway since August 2007, increased \$46.8 million, or 42.8%, to \$156.0 million for the year ended December 31, 2007 from \$109.2 million for the year ended December 31, 2006. For both 2007 and 2006, most of this segment's revenues were from time-and-expense engagements.

Of the overall \$46.8 million increase in revenues, \$19.4 million was attributable to our full-time billable consultants and \$27.4 million was attributable to our full-time equivalents. The \$19.4 million increase in full-time billable consultant revenues reflected an increase in the number of consultants, an increase in the average billing rate per hour for this segment, partially offset by a decrease in the utilization rate of this segment's billable consultants. The \$27.4 million increase in full-time equivalent revenues resulted from our acquisition of Callaway, which heavily utilizes variable, on-demand consultants.

#### **Operating income**

Accounting and Financial Consulting segment operating income increased \$8.4 million, or 16.6%, to \$58.7 million for the year ended December 31, 2007 from \$50.3 million for the year ended December 31, 2006. The Accounting and Financial Consulting segment operating margin decreased to 37.6% in 2007 from 46.1% in 2006. The decline was attributable to lower utilization of this segment's full-time billable consultants as we added a significant number of consultants to position us for future market demand. The decline in this segment's operating margin was also impacted by the acquisition of Callaway, which operated at an operating margin that was slightly lower than the average for the segment. Higher share-based compensation expense and intangible assets amortization expense also contributed to the decline in operating margin. Additionally, non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Accounting and Financial Consulting segment totaled \$2.2 million and reduced this segment's operating margin by 140 basis points.

### **Legal Consulting**

#### **Revenues**

Legal Consulting segment revenues, which include revenues from our acquisitions of DRCS and Aaxis since July 2006, increased \$42.0 million, or 88.1%, to \$89.8 million for the year ended December 31, 2007 from \$47.8 million for the year ended December 31, 2006. For 2007, revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 90.8%, 7.7% and 1.5% of this segment's revenues, respectively, compared to 86.4%, 9.5% and 4.1%, respectively, for 2006.

Of the overall \$42.0 million increase in revenues, \$9.0 million was attributable to our full-time billable consultants and \$33.0 million was attributable to our full-time equivalents. The \$9.0 million increase in full-time billable consultant revenues reflected an increase in the number of consultants, an increase in the average billing rate per hour for this segment, and an increase in the utilization rate of this segment's billable consultants. The \$33.0 million increase in full-time equivalent revenues reflects greater demand and usage of contract reviewers in our document review group.

#### **Operating income**



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Legal Consulting segment operating income increased \$14.4 million, or 103.8%, to \$28.3 million for the year ended December 31, 2007 from \$13.9 million for the year ended December 31, 2006. Operating margin for the Legal Consulting segment increased to 31.5% in 2007 from 29.1% in 2006, primarily due to improved financial results in our document review group, higher utilization of our full-time billable consultants, particularly at the analyst and associate levels, and a decrease in intangible assets amortization.

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### **Corporate Consulting**

#### **Revenues**

Corporate Consulting segment revenues, which include revenues from our acquisition of Galt since April 2006 and revenues from our acquisition of Glass since January 2007, increased \$29.5 million, or 62.1%, to \$77.0 million for the year ended December 31, 2007 from \$47.5 million for the year ended December 31, 2006. For 2007, revenues from time-and-expense engagements, fixed-fee engagements and performance-based engagements represented 45.3%, 50.9% and 3.8% of this segment's revenues, respectively, compared to 60.3%, 36.7% and 3.0%, respectively, for 2006.

Of the overall \$29.5 million increase in revenues, \$27.4 million was attributable to our full-time billable consultants and \$2.1 million was attributable to our full-time equivalents. The \$27.4 million increase in full-time billable consultant revenues reflected an increase in the number of consultants, partially offset by a decline in both the average billing rate per hour for this segment and the utilization rate of this segment's billable consultants.

#### **Operating income**

Corporate Consulting segment operating income increased \$1.2 million, or 6.8%, to \$17.4 million for the year ended December 31, 2007 from \$16.2 million for the year ended December 31, 2006. Operating margin for the Corporate Consulting segment decreased to 22.5% in 2007 from 34.2% in 2006, primarily due to higher compensation costs and selling, general and administrative expenses for this segment, as well as expenses associated with our expansion into Japan. Non-cash compensation expense, representing Shareholder Payments and Employee Payments as described above under Restatement of Previously-Issued Financial Statements, for the Corporate Consulting segment totaled \$2.6 million and \$1.6 million in 2007 and 2006, respectively, and reduced this segment's operating margin by 340 basis points and 330 basis points in 2007 and 2006, respectively.

### **LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents increased \$11.1 million, from \$3.0 million at December 31, 2007, to \$14.1 million at December 31, 2008. Cash and cash equivalents decreased \$13.6 million, from \$16.6 million at December 31, 2006, to \$3.0 million at December 31, 2007. Our primary sources of liquidity are cash flows from operations and debt capacity available under our credit facility.

#### **Operating activities**

During 2008, cash flows provided by operating activities totaled \$101.2 million, compared to \$55.9 million for the year ended December 31, 2007. Our operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable and accrued expenses, and accrued payroll and related benefits. The volume of services rendered and the related billings and timing of collections on those billings, as well as payments of our accounts payable affect these account balances. The increase in cash provided by operations during 2008 was attributable to us collecting cash on our receivables more quickly during 2008 as compared to 2007. Additionally, deferred revenues increased during 2008 due to a higher level of advanced billings and collections. Our days sales outstanding, which is a measure of the average number of days that we take to collect our receivables, decreased from 67 days in 2007 to 57 days in 2008. The increase in advanced billings and the decrease in days sales outstanding were largely due to our integration of Stockamp, which has a practice of billing its clients in advance. The increase in cash provided by operating activities was also attributable to lower estimated tax payments during 2008 as we made an overpayment of taxes in 2007 that was subsequently applied to 2008. These increases in cash were partially offset by lower accrued bonuses at December 31, 2008 compared to December 31, 2007.

During 2007, cash flows generated by operating activities totaled \$55.9 million, compared to \$43.1 million for the year ended December 31, 2006. Receivables from clients and unbilled services increased \$39.0 million during 2007 as compared to \$12.0 million during 2006. This increase was attributable to a greater volume of billings as more services were rendered. Additionally, our days sales outstanding increased in 2007 from 2006. Accrued payroll and related benefits at December 31, 2007 increased by \$14.0 million from December 31, 2006, which was primarily related to accrued bonuses that we paid out in the first quarter of 2008. Accrued bonuses at December 31, 2007 were higher than the prior year due to an increase in the number of employees.



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### **Investing activities**

Cash used in investing activities was \$250.9 million, \$189.4 million and \$69.7 million for the years ended December 31, 2008, 2007 and 2006, respectively. The use of cash in 2008 primarily consisted of \$168.5 million for the acquisition of Stockamp, \$23.0 million for the settlement of Callaway's earn-out provisions, and payments of additional purchase consideration earned by the selling shareholders of Galt, Wellspring and Glass totaling \$32.8 million. The use of cash in 2007 primarily related to the acquisitions of Wellspring, Glass and Callaway. The use of cash in 2006 primarily related to the acquisitions of Galt, DRCS and Aaxis. Additionally, we used cash in all three periods for purchases of computer hardware and software, furniture and fixtures, and leasehold improvements needed to meet the ongoing needs relating to the hiring of additional employees and the expansion of office space. We estimate that our cash utilized for capital expenditures in 2009 will be approximately \$25.0 million, primarily for leasehold improvements, computer equipment and software.

### **Financing activities**

Cash provided by financing activities was \$161.5 million, \$119.8 million and \$11.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. During 2008, 2007 and 2006 upon the vesting of restricted stock awards, we redeemed 107,759, 146,100 and 99,471, respectively, shares of our common stock at an average stock price of \$57.18, \$69.02 and \$34.78, respectively, to satisfy employee tax withholding requirements.

At December 31, 2008, we had a credit agreement with various financial institutions under which we may borrow up to \$460.0 million, with an accordion feature allowing for an additional amount of up to \$60.0 million to be borrowed upon approval from the lenders. The credit agreement consists of a \$240.0 million revolving credit facility ( Revolver ) and a \$220.0 million term loan facility ( Term Loan ), which was drawn in a single advance of \$220.0 million on July 8, 2008 to fund in part our acquisition of Stockamp. The borrowing capacity under the credit agreement is reduced by any outstanding letters of credit, which totaled \$5.7 million at December 31, 2008, and any payments under the Term Loan. At December 31, 2008, the borrowing capacity under the credit agreement was \$163.3 million.

Fees and interest on borrowings vary based on our total debt to EBITDA ratio as set forth in the credit agreement. Interest is based on a spread, ranging from 1.50% to 2.50%, over the London Interbank Offered Rate ( LIBOR ) or a spread, ranging from 0.50% to 1.50%, over the base rate (which is the greater of the Federal Funds Rate plus 0.50% or the Prime Rate), as selected by us. The Term Loan is subject to amortization of principal in fifteen consecutive quarterly installments that began on September 30, 2008, with the first fourteen installments being \$5.5 million each. The fifteenth and final installment will be the amount of the remaining outstanding principal balance of the Term Loan and will be payable on February 23, 2012, but can be repaid earlier. All outstanding borrowings under the Revolver will be due upon expiration of the credit agreement on February 23, 2012.

Under the credit agreement, dividends are restricted to an amount up to \$10.0 million per fiscal year plus 50% of consolidated net income (adjusted for non-cash share-based compensation expense) for such fiscal year, plus 50% of net cash proceeds during such fiscal year with respect to any issuance of capital securities. In addition, certain acquisitions and similar transactions will need to be approved by the lenders. The credit agreement includes quarterly financial covenants that require us to maintain a minimum fixed charge coverage ratio of 2.5 to 1.0 and a maximum leverage ratio of 3.25 to 1.0, as those ratios are defined in the credit agreement. At December 31, 2008, we were in compliance with these financial covenants with a fixed charge coverage ratio of 3.5 to 1.0 and a leverage ratio of 1.98 to 1.0.

During 2008, 2007 and 2006, we made borrowings under our credit facility to fund our business acquisitions, to pay additional purchase consideration earned by selling shareholders of businesses that we acquired, and to pay annual bonuses. We also made borrowings to fund our daily operations. For the years ended December 31, 2008, 2007 and 2006, the average daily outstanding balance under our credit facility was \$245.4 million, \$126.4 million and \$11.9 million, respectively. Borrowings outstanding under this credit facility at December 31, 2008 totaled \$280.0 million and carried a weighted-average interest rate of 3.1%, all of which are classified as long-term on our consolidated balance sheet as the principal under the Revolver is not due until 2012 and we intend to fund scheduled quarterly payments under the Term Loan with availability under the Revolver. Borrowings outstanding at December 31, 2007 totaled \$123.5 million and carried interest at 6.1%. Borrowings outstanding at December 31, 2006 totaled \$8.0 million and carried interest at 5.9%. We were in compliance with our debt covenants as of December 31, 2008, 2007 and 2006.

See above under the heading Restatement of Previously-Issued Financial Statements in this Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, note 3. Restatement of Previously-Issued Financial Statements in the notes to consolidated financial statements under Item 8. Financial Statements and Supplementary Data and Item 1A. Risk Factors for a discussion of certain matters related to the Credit Agreement and our borrowings thereunder in light of the restatement.



**Table of Contents****Future needs**

Our primary financing need has been to fund our growth. Our growth strategy is to expand our service offerings, which will require investments in new hires, acquisitions of complementary businesses, expansion into other geographic areas, and capital expenditures for information technology, office space, furniture and fixtures, and leasehold improvements. In connection with our past business acquisitions, we are required under earn-out provisions to pay additional purchase consideration to the sellers if specific financial performance targets are met. We also have cash needs to service our credit facility and repay our term loan. Further, we have other cash commitments as presented below in contractual obligations. Because we expect that our future annual growth rate in revenues and related percentage increases in working capital balances will moderate, we believe our internally generated liquidity, together with the borrowing capacity available under our revolving credit facility and access to external capital resources, will be adequate to fund our long-term growth and capital needs arising from earn-out provisions, cash commitments and debt service obligations. Our ability to secure short-term and long-term financing in the future will depend on several factors, including our future profitability, the quality of our accounts receivable and unbilled services, our relative levels of debt and equity, and the overall condition of the credit markets, which have declined significantly during 2008. As discussed under the heading *Restatement of Previously-Issued Financial Statements* in this *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and in note *3. Restatement of Previously-Issued Financial Statements* in the notes to consolidated financial statements under *Item 8. Financial Statements and Supplementary Data*, we expect to engage in an impairment analysis with respect to the carrying value of our goodwill in connection with the significant decline in the price of our common stock since our July 31, 2009 announcement of our intention to restate our financial statements, which analysis could result in our not being in compliance with the financial covenants under the Credit Agreement.

**CONTRACTUAL OBLIGATIONS**

The following table represents our obligations and commitments to make future payments under contracts, such as lease agreements, and under contingent commitments as of December 31, 2008 (in thousands).

	Less than 1 year (2009)	1-3 years (2010 to 2011)	3-5 years (2012 to 2013)	More than 5 years (2014 and thereafter)	Total
Additional purchase consideration	\$ 45,400	\$	\$	\$	\$ 45,400
Liability for uncertain tax positions	320				320
Purchase obligations	4,363	2,523	12		6,898
Capital lease obligations	426	392			818
Long-term bank borrowings			280,000		280,000
Operating lease obligations	18,544	32,613	24,453	20,611	96,221
<b>Total contractual obligations</b>	<b>\$ 69,053</b>	<b>\$ 35,528</b>	<b>\$ 304,465</b>	<b>\$ 20,611</b>	<b>\$ 429,657</b>

In connection with certain business acquisitions, we are required to pay additional purchase consideration to the sellers if specific financial performance targets and conditions are met over a number of years as specified in the related purchase agreements. These amounts are calculated and payable at the end of each year based on full year financial results. There is no limitation to the maximum amount of additional purchase consideration and future amounts are not determinable at this time, but the aggregate amount that potentially may be paid could be significant.

As of December 31, 2008, our current and non-current liabilities for uncertain tax positions are \$0.3 million and \$0.9 million, respectively. We are unable to reasonably estimate the timing of future cash flows related to the non-current portion as it is dependent on examinations by taxing authorities.

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

Borrowings outstanding under our credit facility at December 31, 2008 totaled \$280.0 million, all of which we have classified as long-term on our consolidated balance sheet as the principal under the Revolver is not due until 2012 and we intend to fund scheduled quarterly payments under the Term Loan with availability under the Revolver. As described above under *Liquidity and Capital Resources*, interest on borrowings varies based on our total debt to EBITDA ratio and will depend on the timing of our repayments. As such, we are unable to quantify our future obligations relating to interest on our borrowings.



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

### **OFF BALANCE SHEET ARRANGEMENTS**

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

### **NEW ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements in financial statements, but standardizes its definition and guidance in GAAP. Thus, for some entities, the application of this statement may change current practice. We adopted SFAS No. 157 effective beginning on January 1, 2008 for financial assets and financial liabilities, which did not have any impact on our financial statements. In February 2008, the FASB issued FASB Staff Position ( FSP ) FAS 157-2, Effective Date of FASB Statement No. 157, which delayed by one year the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted SFAS No. 157 effective beginning on January 1, 2009 for nonfinancial assets and nonfinancial liabilities, which did not have any impact on our financial statements.

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

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations, ( SFAS No. 141R ). SFAS No. 141R was issued to improve the relevance, representational faithfulness, and comparability of information in financial statements about a business combination and its effects. This statement retains the purchase method of accounting for business combinations, but requires a number of changes. The changes that may have the most significant impact on us include: contingent consideration, such as earn-outs, will be recognized at its fair value on the acquisition date and, for certain arrangements, changes in fair value will be recognized in earnings until settled; acquisition-related transaction and restructuring costs will be expensed as incurred; previously-issued financial information will be revised for subsequent adjustments made to finalize the purchase price accounting; reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties will be recognized in earnings, except in certain situations. We adopted SFAS 141R on a prospective basis effective beginning on January 1, 2009. For business combinations completed on or subsequent to the adoption date, the application of this statement may have a significant impact on our financial statements, the magnitude of which will depend on the specific terms and conditions of the transactions.

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

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

We are exposed to market risks related to interest rates and changes in the market value of our investments. We generally do not enter into interest rate swaps, caps or collars or other hedging instruments.





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Our exposure to changes in interest rates is limited to borrowings under our bank credit agreement, which has variable interest rates tied to the LIBOR, Federal Funds Rate or Prime Rate. At December 31, 2008, we had borrowings outstanding totaling \$280.0 million that carried a weighted-average interest rate of 3.1%. A one percent change in this interest rate would have a \$2.8 million effect on our pre-tax income.

As described above under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview, in connection with our acquisition of Stockamp and the amendment to the Wellspring Stock Purchase Agreement, we issued a total of 1,541,036 shares of our common stock to the sellers of Stockamp and Wellspring. Additionally, we provided them with a protection against a decline in the value of the shares issued until the restrictions on the shares have lapsed. As such, we are subject to market risk relating to our common stock. Upon the lapse of the restrictions, if the average daily closing price of our common stock for the ten consecutive trading days prior to the date that the restrictions lapse is \$47.81 or below, then for every \$1.00 that our stock price is below \$47.81, we would be required to pay the sellers approximately \$1.5 million, in the form of cash, stock, or any combination of cash and stock. Of the 1,541,036 shares issued, the restrictions on 1,210,814 shares lapsed on January 9, 2009 and we were not required to make further payments. The restrictions on the remaining 330,222 shares will lapse on July 9, 2009. Based on the average daily closing price of our common stock for the ten consecutive trading days prior to and including December 31, 2008, or \$57.18, we would not be obligated to make any protection payments to the sellers. If the average price decreased by 10% to \$51.46, we would still not be obligated to make any protection payments to the sellers.

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

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

The Company's consolidated financial statements and supplementary data begin on page F-1 of this Amendment.