
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 000-50976

HURON CONSULTING GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

01-0666114
(IRS Employer
Identification Number)

550 West Van Buren Street
Chicago, Illinois
60607
(Address of principal executive offices)
(Zip Code)

(312) 583-8700
(Registrant's telephone number, including area code)

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

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

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

| | | | |
|-------------------------|--|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

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

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

As of April 21, 2017, 22,100,444 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

Huron Consulting Group Inc.

HURON CONSULTING GROUP INC.**INDEX**

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PART I - FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

HURON CONSULTING GROUP INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

| | March 31, 2017 | December 31, 2016 |
|--|-------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,667 | \$ 17,027 |
| Receivables from clients, net | 96,262 | 94,246 |
| Unbilled services, net | 67,540 | 51,290 |
| Income tax receivable | 5,626 | 4,211 |
| Prepaid expenses and other current assets | 14,690 | 13,308 |
| Total current assets | 196,785 | 180,082 |
| Property and equipment, net | 36,067 | 32,434 |
| Long-term investment | 37,569 | 34,675 |
| Other non-current assets | 26,652 | 24,814 |
| Intangible assets, net | 97,469 | 81,348 |
| Goodwill | 897,752 | 799,862 |
| Total assets | \$ 1,292,294 | \$ 1,153,215 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,426 | \$ 7,273 |
| Accrued expenses | 24,342 | 19,788 |
| Accrued payroll and related benefits | 39,988 | 82,669 |
| Accrued contingent consideration for business acquisitions | 8,263 | 1,985 |
| Deferred revenues | 24,005 | 24,053 |
| Total current liabilities | 106,024 | 135,768 |
| Non-current liabilities: | | |
| Deferred compensation and other liabilities | 25,379 | 24,171 |
| Accrued contingent consideration for business acquisitions, net of current portion | 15,101 | 6,842 |
| Long-term debt | 422,297 | 292,065 |
| Deferred lease incentives | 12,477 | 10,703 |
| Deferred income taxes, net | 45,359 | 35,633 |
| Total non-current liabilities | 520,613 | 369,414 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock; \$0.01 par value; 500,000,000 shares authorized; 24,487,820 and 24,126,118 shares issued at March 31, 2017 and December 31, 2016, respectively | 240 | 235 |
| Treasury stock, at cost, 2,364,699 and 2,408,343 shares at March 31, 2017 and December 31, 2016, respectively | (117,813) | (113,195) |
| Additional paid-in capital | 421,023 | 405,895 |
| Retained earnings | 356,346 | 351,483 |
| Accumulated other comprehensive income | 5,861 | 3,615 |
| Total stockholders' equity | 665,657 | 648,033 |
| Total liabilities and stockholders' equity | \$ 1,292,294 | \$ 1,153,215 |

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

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

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2017 | 2016 |
| Revenues and reimbursable expenses: | | |
| Revenues | \$ 188,849 | \$ 180,489 |
| Reimbursable expenses | 16,950 | 16,561 |
| Total revenues and reimbursable expenses | 205,799 | 197,050 |
| Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses): | | |
| Direct costs | 115,741 | 111,857 |
| Amortization of intangible assets and software development costs | 2,986 | 3,386 |
| Reimbursable expenses | 16,869 | 16,627 |
| Total direct costs and reimbursable expenses | 135,596 | 131,870 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 46,856 | 42,057 |
| Restructuring charges | 279 | 1,333 |
| Depreciation and amortization | 8,919 | 7,414 |
| Total operating expenses | 56,054 | 50,804 |
| Operating income | 14,149 | 14,376 |
| Other income (expense), net: | | |
| Interest expense, net of interest income | (4,004) | (3,971) |
| Other income, net | 758 | 471 |
| Total other expense, net | (3,246) | (3,500) |
| Income from continuing operations before income tax expense | 10,903 | 10,876 |
| Income tax expense | 5,748 | 4,010 |
| Net income from continuing operations | 5,155 | 6,866 |
| Income (loss) from discontinued operations, net of tax | 143 | (864) |
| Net income | \$ 5,298 | \$ 6,002 |
| Net earnings per basic share: | | |
| Net income from continuing operations | \$ 0.24 | \$ 0.33 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.05) |
| Net income | \$ 0.25 | \$ 0.28 |
| Net earnings per diluted share: | | |
| Net income from continuing operations | \$ 0.24 | \$ 0.32 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.04) |
| Net income | \$ 0.25 | \$ 0.28 |
| Weighted average shares used in calculating earnings per share: | | |
| Basic | 21,239 | 21,114 |
| Diluted | 21,474 | 21,460 |
| Comprehensive income: | | |
| Net income | \$ 5,298 | \$ 6,002 |
| Foreign currency translation adjustments, net of tax | 424 | 21 |
| Unrealized gain on investment, net of tax | 1,777 | 1,472 |
| Unrealized gain (loss) on cash flow hedging instruments, net of tax | 45 | (114) |
| Other comprehensive income | 2,246 | 1,379 |
| Comprehensive income | \$ 7,544 | \$ 7,381 |

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

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

| | Common Stock | | Treasury Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Stockholders' Equity |
|---|-------------------|---------------|--------------------|---------------------|----------------------------|-------------------|--|----------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2016 | 23,478,016 | \$ 235 | (2,420,913) | \$ (113,195) | \$ 405,895 | \$ 351,483 | \$ 3,615 | \$ 648,033 |
| Comprehensive income | | | | | | 5,298 | 2,246 | 7,544 |
| Issuance of common stock in connection with: | | | | | | | | |
| Restricted stock awards, net of cancellations | 284,707 | 3 | (5,780) | (437) | 434 | | | — |
| Business acquisition | 221,558 | 2 | | | 9,558 | | | 9,560 |
| Share-based compensation | | | | | 4,701 | | | 4,701 |
| Shares redeemed for employee tax withholdings | | | (95,565) | (4,181) | | | | (4,181) |
| Cumulative-effect adjustment from adoption of ASU 2016-09 | | | | | 435 | (435) | | — |
| Balance at March 31, 2017 | <u>23,984,281</u> | <u>\$ 240</u> | <u>(2,522,258)</u> | <u>\$ (117,813)</u> | <u>\$ 421,023</u> | <u>\$ 356,346</u> | <u>\$ 5,861</u> | <u>\$ 665,657</u> |

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

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

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net income | \$ 5,298 | \$ 6,002 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 11,931 | 10,799 |
| Share-based compensation | 3,939 | 5,208 |
| Amortization of debt discount and issuance costs | 2,482 | 2,367 |
| Allowances for doubtful accounts and unbilled services | 1,346 | 2,418 |
| Deferred income taxes | 7,316 | 7,191 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| (Increase) decrease in receivables from clients | 6,663 | 14,834 |
| (Increase) decrease in unbilled services | (14,282) | (19,363) |
| (Increase) decrease in current income tax receivable / payable, net | (2,026) | (8,247) |
| (Increase) decrease in other assets | (828) | 10,983 |
| Increase (decrease) in accounts payable and accrued liabilities | 4,701 | (3,960) |
| Increase (decrease) in accrued payroll and related benefits | (43,317) | (37,451) |
| Increase (decrease) in deferred revenues | (1,615) | 198 |
| Net cash used in operating activities | (18,392) | (9,021) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment, net | (6,503) | (1,980) |
| Investment in life insurance policies | (133) | (866) |
| Purchases of businesses, net of cash acquired | (101,817) | (14,000) |
| Capitalization of internally developed software costs | (265) | (252) |
| Proceeds from note receivable | 177 | — |
| Net cash used in investing activities | (108,541) | (17,098) |
| Cash flows from financing activities: | | |
| Proceeds from exercise of stock options | — | 123 |
| Shares redeemed for employee tax withholdings | (4,181) | (4,377) |
| Share repurchases | — | (55,265) |
| Proceeds from borrowings under credit facility | 179,000 | 70,500 |
| Repayments on credit facility | (51,000) | (30,000) |
| Payments for debt issuance costs | (395) | — |
| Payment of contingent consideration liabilities | (873) | — |
| Net cash provided by (used in) financing activities | 122,551 | (19,019) |
| Effect of exchange rate changes on cash | 22 | 158 |
| Net decrease in cash and cash equivalents | (4,360) | (44,980) |
| Cash and cash equivalents at beginning of the period | 17,027 | 58,437 |
| Cash and cash equivalents at end of the period | \$ 12,667 | \$ 13,457 |
| Supplemental disclosure of cash flow information: | | |
| Non-cash investing and financing activities: | | |
| Property and equipment expenditures included in accounts payable and accrued expenses | \$ 4,130 | \$ 1,461 |
| Contingent consideration related to business acquisitions | \$ 15,489 | \$ 6,500 |
| Common stock issued related to business acquisition | \$ 9,560 | \$ — |

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

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

1. Description of Business

Huron is a global professional services firm committed to achieving sustainable results in partnership with its clients. We bring depth of expertise in strategy, technology, operations, advisory services, and analytics to drive lasting and measurable results in the healthcare, higher education, life sciences and commercial sectors. Through focus, passion, and collaboration, we provide guidance to support organizations as they contend with the change transforming their industries and businesses.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements reflect the financial position, results of operations, and cash flows as of and for the three months ended March 31, 2017 and 2016. These financial statements have been prepared in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for Quarterly Reports on Form 10-Q. Accordingly, these financial statements do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual financial statements. In the opinion of management, these financial statements reflect all adjustments of a normal, recurring nature necessary for the fair statement of our financial position, results of operations, and cash flows for the interim periods presented in conformity with GAAP. These financial statements should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2016 included in our Annual Report on Form 10-K. Our results for any interim period are not necessarily indicative of results for a full year or any other interim period.

3. New Accounting Pronouncements

Recently Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, classification of excess tax benefits on the statement of cash flows, and forfeitures. We adopted this guidance in the first quarter of 2017, at which time we began recognizing excess tax benefits and deficiencies as income tax benefit or expense in our consolidated statements of earnings on a prospective basis. During the first quarter of 2017, we recognized \$1.6 million of net excess tax deficiencies as income tax expense in our consolidated statement of earnings. Refer to Note 13 "Income Taxes" for additional information on our effective tax rate for the three months ended March 31, 2017. Additionally, upon adoption, we began classifying excess tax benefits as an operating activity on the statement of cash flows on a retrospective basis. As a result, we reclassified \$0.9 million of excess tax benefits for the first three months of 2016 from cash flows from financing activities to cash flows from operating activities on our statement of cash flows. We elected to account for share-based award forfeitures as they occur, and applied this accounting change on a modified retrospective basis as a cumulative-effect adjustment to retained earnings of \$0.4 million.

In March 2016, the FASB issued ASU 2016-06, *Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments*. ASU 2016-06 clarifies that in assessing whether an embedded contingent put or call option is clearly and closely related to the debt host, an entity is required to perform only the four-step decision sequence in ASC 815-15-25-42 (as amended by the ASU). The entity does not have to separately assess whether the event that triggers its ability to exercise the contingent option is itself indexed only to interest rates or credit risk. We adopted these amendments in the first quarter of 2017 on a modified retrospective basis. The adoption of these amendments did not have any impact on our consolidated financial statements.

Not Yet Adopted

In January 2017, the FASB issued ASU 2017-04, *Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates Step 2 of the goodwill impairment test, which required us to determine the implied fair value of goodwill by allocating the reporting unit's fair value to each of its assets and liabilities as if the reporting unit was acquired in a business acquisition. Instead, the updated guidance requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit to its carrying value, and recognizing a non-cash impairment charge for the amount by which the carrying value exceeds the reporting unit's fair value with the loss not exceeding the total amount of goodwill allocated to that reporting unit. The updated guidance is effective for us beginning

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

January 1, 2020, with early adoption permitted, and will be applied on a prospective basis. We are currently evaluating the impact of this updated guidance on future annual or interim goodwill impairment tests performed.

In March 2016, the FASB issued ASU 2016-02, *Leases*, which supersedes ASC Topic 840, *Leases*, and sets forth the principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record on the balance sheet a right-of-use asset and a lease liability, equal to the present value of the remaining lease payments, for all leases with a term greater than 12 months regardless of the lease classification. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or a straight-line basis over the term of the lease. ASU 2016-02 will be effective for us beginning January 1, 2019, with early adoption permitted. Entities are required to use a modified retrospective transition method for existing leases. We are currently evaluating the potential impact this guidance will have on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments to the guidance enhance the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation, and disclosure. The updated guidance is effective for us beginning January 1, 2018. We do not expect this guidance to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, as a new Topic, ASC 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In accordance with the new standard, we will adopt ASU 2014-09 on January 1, 2018. Companies may apply the new guidance using either the full retrospective transition method, which requires restating each prior period presented, or the modified retrospective transition method, under which the new guidance is applied to the current period presented in the financial statements and a cumulative-effect adjustment is recorded as of the date of adoption. We expect to apply the new guidance using the modified retrospective transition method. We are currently evaluating the potential impact this guidance will have on our consolidated financial statements; most notably the impact on our revenue recognition for performance-based fee billing arrangements. Currently, we recognize revenue under performance-based fee billing arrangements once all related performance criteria are met and the amount to be recognized is fixed or determinable. However, we anticipate that ASC 606 will require us to estimate these amounts and recognize the estimated amount over the term of the engagement. As a result, we expect to recognize revenue under performance-based fee billing arrangements earlier under ASC 606 than we do under current guidance.

4. Discontinued Operations

On December 31, 2015, we sold Huron Legal to Consilio, Inc. ("Consilio"). Huron Legal provided eDiscovery services, consulting services and contract management services related to law department management, information governance and compliance, legal discovery, litigation management, and legal analytics.

The divestiture of the Huron Legal segment represented a strategic shift that had a major effect on our operations and financial results. As such, the operations of our Huron Legal segment have been classified as discontinued operations in our consolidated statements of earnings for all periods presented. As of March 31, 2017 and December 31, 2016, no assets or liabilities of the disposed business remained on our consolidated balance sheet.

For the three months ended March 31, 2017, we recognized income from discontinued operations, net of tax, of \$0.1 million, primarily related to updated lease assumptions for vacated office space directly related to the sale of the Huron Legal segment. For the three months ended March 31, 2016, we recognized a \$0.9 million loss from discontinued operations, net of tax primarily related to employee benefit obligations and legal fees directly related to the sale of the Huron Legal segment.

In connection with the sale of Huron Legal, we entered into a transition services agreement ("TSA") with Consilio, under which we provide certain post-closing services, support, and facilities to Consilio to facilitate an orderly transfer of the Huron Legal business operations. Billings under the TSA, which we do not consider to be significant, are recorded as a reduction of the costs to provide the respective service, primarily in selling, general and administrative expenses in the consolidated statements of earnings. We expect to provide services under the TSA through the third quarter of 2017 with the scope of services decreasing over the term of the agreement. Other than the TSA, we have no continuing involvement with the Huron Legal segment.

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

5. Acquisitions

Pope Woodhead and Associates Limited

On January 9, 2017, we completed our acquisition of Pope Woodhead and Associates Limited ("Pope Woodhead"), a U.K.-based consulting firm providing market access capabilities to assist clients in developing value propositions for innovative medicines and technologies. The acquisition expands our life sciences strategy expertise and strengthens our ability to lead clients through complex payer and regulatory environments. The acquisition of Pope Woodhead was not significant to our consolidated financial statements. Pope Woodhead's results of operations have been included in our consolidated financial statements and the results of operations of our Education and Life Sciences segment from the date of acquisition.

Innosight Holdings LLC

On March 1, 2017, we acquired 100% of the membership interests of Innosight Holdings LLC ("Innosight") in accordance with the purchase agreement dated February 16, 2017. Innosight is a growth strategy firm focused on helping companies navigate disruptive change and manage strategic transformation. Together with Innosight, we will use our strategic, operational, and technology capabilities to help clients across multiple industries develop pioneering solutions to address disruption and achieve sustained growth.

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

The acquisition date fair value of the consideration transferred for Innosight was \$113.1 million, which consisted of the following:

Fair value of consideration transferred

| | | |
|--|----|---------|
| Cash | \$ | 90,725 |
| Common stock | | 9,560 |
| Preliminary contingent consideration liability | | 12,050 |
| Accrued preliminary net working capital adjustment | | 810 |
| Total consideration transferred | \$ | 113,145 |

We funded the cash component of the purchase price with cash on hand and borrowings of \$89.0 million under our senior secured credit facility. We issued 221,558 shares of our common stock as part of the consideration transferred, with an acquisition date fair value of \$9.6 million based on our common stock's closing price of \$43.15 on the date of acquisition. The preliminary contingent consideration liability of \$12.1 million represents the acquisition date fair value of the contingent consideration arrangement, pursuant to which we may be required to pay additional consideration to the sellers if specific financial performance targets are met over a four-year term. The maximum amount that may be paid is \$35.0 million. See Note 11 "Fair Value of Financial Instruments" for additional information on the valuation of contingent consideration liabilities.

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

The following table summarizes the preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed as of the acquisition date.

| | March 1, 2017 |
|--|----------------------|
| Assets acquired: | |
| Accounts receivable | \$ 7,752 |
| Unbilled services | 1,541 |
| Prepaid expenses and other current assets | 530 |
| Property and equipment | 419 |
| Intangible assets | 18,015 |
| Liabilities assumed: | |
| Accounts payable | 569 |
| Accrued expenses and other current liabilities | 1,123 |
| Accrued payroll and related benefits | 816 |
| Deferred revenues | 30 |
| Total identifiable net assets | 25,719 |
| Goodwill | 87,426 |
| Total purchase price | \$ 113,145 |

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

| | Fair Value | Useful Life in Years |
|---|-------------------|-----------------------------|
| Customer relationships | \$ 9,500 | 6 |
| Trade name | 6,000 | 6 |
| Customer contracts | 1,000 | 1 |
| Non-compete agreements | 1,300 | 5 |
| Favorable lease contract | 215 | 1 |
| Total intangible assets subject to amortization | \$ 18,015 | |

The weighted average amortization period for the identifiable intangible assets shown above is 5.6 years. Customer relationships and customer contracts represent the fair values of the underlying relationships and agreements with Innosight customers. The trade name represents the fair value of the brand and name recognition associated with the marketing of Innosight's service offerings. Non-compete agreements represent the value derived from preventing certain Innosight executives from entering into or starting a similar, competing business. The favorable lease contract represents the difference between the fair value and minimum lease obligations under the current outstanding lease. Goodwill is recognized for the excess of purchase price over the net fair value of assets acquired and liabilities assumed, and largely reflects the expanded market opportunities expected from combining the service offerings of Huron and Innosight, as well as the assembled workforce of Innosight. Goodwill recognized in conjunction with the acquisition of Innosight was recorded in the Business Advisory segment. Goodwill of \$87.4 million is expected to be deductible for income tax purposes.

Innosight's results of operations have been included in our unaudited consolidated statements of earnings and results of operations of our Business Advisory segment from the date of acquisition. For the three months ended March 31, 2017, revenues from Innosight were \$5.2 million and operating income was \$1.2 million, which included \$0.8 million of amortization expense for intangible assets acquired. In connection with the acquisition of Innosight, we incurred \$1.4 million of transaction and acquisition-related expenses, which were primarily incurred in the first quarter of 2017. These costs are recorded in selling, general and administrative expenses.

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

The following unaudited supplemental pro forma information summarizes the combined results of operations of Huron and Innosight as though the companies were combined on January 1, 2016.

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2017 | 2016 |
| Revenues | \$ 197,974 | \$ 189,570 |
| Net income from continuing operations | \$ 8,079 | \$ 5,630 |
| Net income from continuing operations per share - basic | \$ 0.38 | \$ 0.26 |
| Net income from continuing operations per share - diluted | \$ 0.37 | \$ 0.26 |

The historical financial information has been adjusted to give effect to pro forma adjustments consisting of intangible assets amortization expense, acquisition-related costs, interest expense, and the related income tax effects, which totaled \$0.9 million and \$3.2 million of additional expense for the three months ended March 31, 2017 and 2016, respectively. Additionally, the historical financial information has been adjusted to give effect to the shares issued as consideration. All of these adjustments are based upon currently available information and certain assumptions. Therefore, the pro forma consolidated results are not necessarily indicative of what our consolidated results of operations actually would have been had it completed the acquisition on January 1, 2016. The historical results included in the pro forma consolidated results do not purport to project future results of operations of the combined companies nor do they reflect the expected realization of any cost savings or revenue synergies associated with the acquisition.

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

6. Goodwill and Intangible Assets

The table below sets forth the changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2017.

| | Healthcare | Education and Life Sciences | Business Advisory | Total |
|---|------------|-----------------------------------|----------------------|------------|
| Balance as of December 31, 2016: | | | | |
| Goodwill | \$ 636,802 | \$ 102,906 | \$ 203,137 | \$ 942,845 |
| Accumulated impairment losses | — | — | (142,983) | (142,983) |
| Goodwill, net as of December 31, 2016 | 636,802 | 102,906 | 60,154 | 799,862 |
| Goodwill recorded in connection with business acquisitions ⁽¹⁾ | — | 10,252 | 87,426 | 97,678 |
| Foreign currency translation | — | 144 | 68 | 212 |
| Goodwill, net as of March 31, 2017 | \$ 636,802 | \$ 113,302 | \$ 147,648 | \$ 897,752 |

(1) Refer to Note 5 “Acquisitions” for additional information on the goodwill recorded in connection with business acquisitions.

Intangible assets as of March 31, 2017 and December 31, 2016 consisted of the following:

| | Useful Life in Years | As of March 31, 2017 | | As of December 31, 2016 | |
|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | 4 to 13 | \$ 105,141 | \$ 38,804 | \$ 89,279 | \$ 34,827 |
| Trade names | 2 to 6 | 29,016 | 13,367 | 22,930 | 11,652 |
| Customer contracts | 1 to 4 | 27,497 | 23,049 | 26,497 | 21,295 |
| Technology and software | 3 to 5 | 9,340 | 3,274 | 8,970 | 2,667 |
| Non-competition agreements | 1 to 5 | 5,292 | 1,931 | 3,685 | 1,697 |
| Publishing content | 3 | 3,300 | 2,338 | 3,300 | 2,062 |
| Favorable lease contract | 1 to 3 | 935 | 289 | 720 | 203 |
| In-process technology | Indefinite | — | — | 370 | — |
| Total | | \$ 180,521 | \$ 83,052 | \$ 155,751 | \$ 74,403 |

Identifiable intangible assets with finite lives are amortized over their estimated useful lives. Customer relationships and customer contracts, as well as certain trade names and technology and software, are amortized on an accelerated basis to correspond to the cash flows expected to be derived from the assets. All other intangible assets with finite lives are amortized on a straight-line basis. In connection with the acquisition of MyRounding Solutions, LLC, we acquired in-process technology which was accounted for as an indefinite-lived intangible asset until the development of the technology was complete, which occurred in the first quarter of 2017. Upon completion, we reclassified the technology to definite-lived technology and software, and began amortizing the asset over a five-year useful life on a straight-line basis.

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Intangible asset amortization expense was \$8.7 million and \$7.4 million for the three months ended March 31, 2017 and 2016, respectively. The table below sets forth the estimated annual amortization expense for the year ending December 31, 2017 and each of the five succeeding years for the definite-lived intangible assets recorded as of March 31, 2017.

| Year Ending December 31, | Estimated Amortization Expense | |
|--------------------------|--------------------------------|--------|
| 2017 | \$ | 34,780 |
| 2018 | \$ | 23,728 |
| 2019 | \$ | 17,121 |
| 2020 | \$ | 11,998 |
| 2021 | \$ | 8,043 |
| 2022 | \$ | 6,090 |

Actual future amortization expense could differ from these estimated amounts as we finalize the valuations for Pope Woodhead and Innosight, and also as a result of future acquisitions, dispositions, and other factors.

7. Earnings Per Share

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2017 | 2016 |
| Net income from continuing operations | \$ 5,155 | \$ 6,866 |
| Income (loss) from discontinued operations, net of tax | 143 | (864) |
| Net income | <u>\$ 5,298</u> | <u>\$ 6,002</u> |
| Weighted average common shares outstanding – basic | 21,239 | 21,114 |
| Weighted average common stock equivalents | 235 | 346 |
| Weighted average common shares outstanding – diluted | <u>21,474</u> | <u>21,460</u> |
| Net earnings per basic share: | | |
| Net income from continuing operations | \$ 0.24 | \$ 0.33 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.05) |
| Net income | <u>\$ 0.25</u> | <u>\$ 0.28</u> |
| Net earnings per diluted share: | | |
| Net income from continuing operations | \$ 0.24 | \$ 0.32 |
| Income (loss) from discontinued operations, net of tax | 0.01 | (0.04) |
| Net income | <u>\$ 0.25</u> | <u>\$ 0.28</u> |

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

| | As of March 31, | |
|--|-----------------|-------|
| | 2017 | 2016 |
| Unvested restricted stock awards | 92 | 46 |
| Convertible senior notes | 3,129 | 3,129 |
| Warrants related to the issuance of convertible senior notes | 3,129 | 3,129 |
| Total anti-dilutive securities | 6,350 | 6,304 |

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

We currently have a share repurchase program, authorized by our board of directors, pursuant to which we may, from time to time, repurchase up to \$125 million of our common stock through October 31, 2017 (the “Share Repurchase Program”). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our credit facility, general market and business conditions, and applicable legal requirements. No shares were repurchased in the first quarter of 2017. In the first quarter of 2016, we repurchased and retired 982,192 shares for \$55.3 million. As of March 31, 2017, \$35.1 million remains available for share repurchases.

8. Financing Arrangements

A summary of the carrying amounts of our debt follows:

| | March 31, 2017 | December 31, 2016 |
|---|----------------|-------------------|
| 1.25% convertible senior notes due 2019 | \$ 226,297 | \$ 224,065 |
| Senior secured credit facility | 196,000 | 68,000 |
| Total long-term debt | \$ 422,297 | \$ 292,065 |

A summary of the scheduled maturities of our debt follows:

| | Scheduled Maturities of Long-Term Debt |
|------|--|
| 2019 | \$ 250,000 |
| 2020 | \$ 196,000 |

Convertible Notes

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

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

The initial conversion rate for the Convertible Notes is 12.5170 shares of our common stock per \$1,000 principal amount of the Convertible Notes, which is equal to an initial conversion price of approximately \$79.89 per share of our common stock. The conversion rate will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest, except in certain limited circumstances described in the Indenture. Upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture) the Company will, in certain circumstances, increase the

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conversion rate by a number of additional shares for a holder that elects to convert its Convertible Notes in connection with such make-whole fundamental change. Additionally, if the Company undergoes a “fundamental change” (as defined in the Indenture), a holder will have the option to require the Company to repurchase all or a portion of its Convertible Notes for cash at a price equal to 100% of the principal amount of the Convertible Notes being repurchased plus any accrued and unpaid interest. As discussed below, the convertible note hedge transactions and warrants, which were entered into in connection with the Convertible Notes, effectively raise the price at which economic dilution would occur from the initial conversion price of approximately \$79.89 to approximately \$97.12 per share.

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

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

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

We have separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was determined by measuring the fair value of a similar liability that does not have an associated convertible feature, assuming our non-convertible debt borrowing rate. The carrying value of the equity component representing the conversion option, which is recognized as a debt discount, was determined by deducting the fair value of the liability component from the proceeds of the Convertible Notes. The debt discount is amortized to interest expense using an effective interest rate of 4.751% over the term of the Convertible Notes. As of March 31, 2017, the remaining life of the Convertible Notes is 2.5 years. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification.

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

As of March 31, 2017 and December 31, 2016, the Convertible Notes consisted of the following:

| | As of March 31, 2017 | As of December 31, 2016 |
|--|-----------------------------|--------------------------------|
| Liability component: | | |
| Proceeds | \$ 250,000 | \$ 250,000 |
| Less: debt discount, net of amortization | (20,592) | (22,520) |
| Less: debt issuance costs, net of amortization | (3,111) | (3,415) |
| Net carrying amount | <u>\$ 226,297</u> | <u>\$ 224,065</u> |
| Equity component ⁽¹⁾ | <u>\$ 39,287</u> | <u>\$ 39,287</u> |

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

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

| | Three Months Ended | |
|-------------------------------------|---------------------------|-----------------|
| | March 31, | |
| | 2017 | 2016 |
| Contractual interest coupon | \$ 781 | \$ 781 |
| Amortization of debt discount | 1,928 | 1,839 |
| Amortization of debt issuance costs | 304 | 298 |
| Total interest expense | <u>\$ 3,013</u> | <u>\$ 2,918</u> |

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

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

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

Senior Secured Credit Facility

The Company has a \$500 million five-year senior secured revolving credit facility, subject to the terms of a Second Amended and Restated Credit Agreement dated as of March 31, 2015 and amended by the first amendment to the credit agreement dated February 25, 2017 (as amended and modified the "Amended Credit Facility"), that becomes due and payable in full upon maturity on March 31, 2020. The Amended Credit Agreement provides the option to increase the revolving credit facility or establish term loan facilities in an aggregate amount of up to \$100 million, subject to customary conditions and the approval of any lender whose commitment would be increased, resulting in a maximum available principal amount under the Amended Credit Agreement of \$600 million. The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under a prior credit agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, acquisitions of businesses, share repurchases, and general corporate purposes.

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Fees and interest on borrowings vary based on our Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). At our option, borrowings under the Amended Credit Agreement will bear interest at one, two, three or six-month LIBOR or an alternate base rate, in each case plus the applicable margin. The applicable margin will fluctuate between 1.25% per annum and 2.00% per annum, in the case of LIBOR borrowings, or between 0.25% per annum and 1.00% per annum, in the case of base rate loans, based upon our Consolidated Leverage Ratio at such time.

Amounts borrowed under the Amended Credit Agreement may be prepaid at any time without premium or penalty. We are required to prepay the amounts outstanding under the Amended Credit Agreement in certain circumstances, including a requirement to pay all amounts outstanding under the Amended Credit Agreement 90 days prior to the Convertible Indebtedness Maturity Date (as defined in the Amended Credit Agreement) unless (1) the Convertible Indebtedness Maturity Date is waived or extended to a later date, (2) the Company can demonstrate (a) Liquidity (as defined in the Amended Credit Agreement) in an amount at least equal to the principal amount due on the Convertible Indebtedness Maturity Date, and (b) financial covenant compliance after giving effect to such payments and any additional indebtedness incurred on a pro forma basis, or (3) this requirement is waived by the Required Lenders (as defined in the Amended Credit Agreement). In addition, we have the right to permanently reduce or terminate the unused portion of the commitments provided under the Amended Credit Agreement at any time.

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

The Amended Credit Agreement contains usual and customary representations and warranties; affirmative and negative covenants, which include limitations on liens, investments, additional indebtedness, and restricted payments; and two quarterly financial covenants as follows: (i) a maximum Consolidated Leverage Ratio (defined as the ratio of debt to consolidated EBITDA) ranging from 3.25 to 1.00 to 3.75 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (defined as the ratio of consolidated EBITDA to interest) of 3.50 to 1.00. Consolidated EBITDA for purposes of the financial covenants is calculated on a continuing operations basis and includes adjustments to add back share-based compensation costs, certain non-cash restructuring charges, and pro forma historical EBITDA for businesses acquired. At March 31, 2017, we were in compliance with these financial covenants with a Consolidated Leverage Ratio of 2.90 to 1.00 and a Consolidated Interest Coverage Ratio of 19.94 to 1.00.

Borrowings outstanding under the Amended Credit Agreement at March 31, 2017 totaled \$196.0 million. These borrowings carried a weighted average interest rate of 2.4%, including the effect of the interest rate swap described below in Note 10 "Derivative Instruments and Hedging Activity." Borrowings outstanding under the Amended Credit Agreement at December 31, 2016 were \$68.0 million and carried a weighted average interest rate of 2.5%. The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At March 31, 2017, we had outstanding letters of credit totaling \$2.2 million, which are primarily used as security deposits for our office facilities. As of March 31, 2017, the unused borrowing capacity under the revolving credit facility was \$301.8 million.

9. Restructuring Charges

During the three months ended March 31, 2017, we incurred a \$0.3 million pretax restructuring charge primarily related to updated assumptions for lease accruals.

During the first quarter of 2016, we incurred a \$1.3 million pretax restructuring charge. The \$1.3 million charge primarily consisted of \$0.8 million related to workforce reductions in our corporate operations as we adjusted our infrastructure to align with our Huron Legal divestiture, \$0.2 million related to updated assumptions for the lease accrual of the Washington, D.C. space vacated in the fourth quarter of 2014, and \$0.2 million related to the wind down of our foreign consulting operations based in the Middle East.

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The table below sets forth the changes in the carrying amount of our restructuring charge liability by restructuring type for the three months ended March 31, 2017.

| | <u>Employee Costs</u> | <u>Office Space Reductions</u> | <u>Other</u> | <u>Total</u> |
|---------------------------------|-----------------------|--------------------------------|--------------|-----------------|
| Balance as of December 31, 2016 | \$ 5,182 | \$ 5,773 | \$ 24 | \$ 10,979 |
| Additions ⁽¹⁾ | 154 | 141 | 61 | 356 |
| Payments | (4,436) | (333) | — | (4,769) |
| Adjustments ⁽¹⁾ | (78) | (229) | (68) | (375) |
| Non-cash items | — | — | (17) | (17) |
| Balance as of March 31, 2017 | <u>\$ 822</u> | <u>\$ 5,352</u> | <u>\$ —</u> | <u>\$ 6,174</u> |

(1) Additions and adjustments for the three months ended March 31, 2017 include a total of \$0.3 million related to discontinued operations. Refer to Note 4 "Discontinued Operations" for additional information on our discontinued operations.

As of March 31, 2017, our restructuring charge liability related to office space reductions of \$5.4 million represented the present value of remaining lease payments, net of estimated sublease income, primarily for our vacated office spaces in Washington, D.C. and Houston. This restructuring charge liability is included as a component of accrued expenses and deferred compensation and other liabilities. Of the \$0.8 million restructuring charge liability related to employee costs at March 31, 2017, \$0.6 million is expected to be paid in the next 12 months. The restructuring charge liability related to employee costs is included as a component of accrued payroll and related benefits and deferred compensation and other liabilities.

10. Derivative Instruments and Hedging Activity

On April 4, 2013, we entered into a forward amortizing interest rate swap agreement effective March 31, 2014 and ending August 31, 2017. We entered into this derivative instrument to hedge against the interest rate risks of our variable-rate borrowings. The swap had an initial notional amount of \$60.0 million and amortized quarterly until April 2016. In April 2016, the notional amount of this interest rate swap increased to \$86.0 million and continues to amortize quarterly throughout the remaining term. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 0.985%.

We recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. We have designated this derivative instrument as a cash flow hedge. Therefore, changes in the fair value of the derivative instrument is recorded as a component of other comprehensive income ("OCI") to the extent of effectiveness and reclassified into interest expense upon settlement. The ineffective portion of the change in fair value of the derivative instrument is recognized in interest expense. As of March 31, 2017, it was anticipated that all of the gains, net of tax, currently recorded in accumulated other comprehensive income will be reclassified into earnings within the next 12 months. Our interest rate swap agreement was effective during the three months ended March 31, 2017.

The table below sets forth additional information relating to the interest rate swap designated as a cash flow hedging instrument as of March 31, 2017 and December 31, 2016.

| Balance Sheet Location | Fair Value (Derivative Asset and Liability) | |
|---|--|------------------------------|
| | March 31, 2017 | December 31, 2016 |
| Prepaid expenses and other current assets | \$ 20 | \$ — |
| Accrued expenses | \$ — | \$ 54 |

All of our derivative instruments are transacted under the International Swaps and Derivatives Association (ISDA) master agreements. These agreements permit the net settlement of amounts owed in the event of default and certain other termination events. Although netting is permitted, it is our policy to record all derivative assets and liabilities on a gross basis on our

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consolidated balance sheet. The interest rate swap outstanding as of March 31, 2017 and December 31, 2016 was held with the same counterparty.

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

11. Fair Value of Financial Instruments

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

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

The table below sets forth our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 and December 31, 2016.

| | Level 1 | Level 2 | Level 3 | Total |
|--|---------|-----------|-----------|-----------|
| March 31, 2017 | | | | |
| Assets: | | | | |
| Interest rate swap | \$ — | \$ 20 | \$ — | \$ 20 |
| Promissory note | — | — | 2,213 | 2,213 |
| Convertible debt investment | — | — | 37,569 | 37,569 |
| Deferred compensation assets | — | 17,316 | — | 17,316 |
| Total assets | \$ — | \$ 17,336 | \$ 39,782 | \$ 57,118 |
| Liabilities: | | | | |
| Contingent consideration for business acquisitions | \$ — | \$ — | \$ 23,364 | \$ 23,364 |
| Total liabilities | \$ — | \$ — | \$ 23,364 | \$ 23,364 |
| December 31, 2016 | | | | |
| Assets: | | | | |
| Promissory note | \$ — | \$ — | \$ 2,325 | \$ 2,325 |
| Convertible debt investment | — | — | 34,675 | 34,675 |
| Deferred compensation assets | — | 16,408 | — | 16,408 |
| Total assets | \$ — | \$ 16,408 | \$ 37,000 | \$ 53,408 |
| Liabilities: | | | | |
| Interest rate swap | \$ — | \$ 54 | \$ — | \$ 54 |
| Contingent consideration for business acquisitions | — | — | 8,827 | 8,827 |
| Total liabilities | \$ — | \$ 54 | \$ 8,827 | \$ 8,881 |

Deferred compensation assets: We have a non-qualified deferred compensation plan (the "Plan") for the members of our board of directors and a select group of our employees. The deferred compensation liability is funded by the Plan assets, which consist of life insurance policies maintained within a trust. The cash surrender value of the life insurance policies approximates fair value based on third-party broker statements which are derived from the fair value of the life insurance policies' underlying investments, which are Level 2 inputs. The cash surrender value of the life insurance policies is invested primarily in mutual

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funds. The Plan assets are included in other non-current assets on our consolidated balance sheet. Realized and unrealized gains (losses) from the deferred compensation assets are recorded to other income (expense), net in our consolidated statements of earnings.

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

Promissory note: As part of the consideration received for the sale of our Accounting Advisory practice on December 30, 2011, the Company received a \$3.5 million promissory note payable over four years. During the second quarter of 2014, we agreed to amend and restate the note such that principal payments will be paid to us annually based on the amount of excess cash flows earned each year by the maker of the note until the maturity date of December 31, 2018, at which time the remaining principal balance and any accrued interest is due. The fair value of the note is based on the net present value of the projected cash flows using a discount rate of 17%, which accounts for the risks associated with the note. This fair value measurement is based on significant inputs not observable in the market and thus represent Level 3 inputs. As of March 31, 2017, \$0.2 million is recorded in prepaid expenses and other current assets and represents the present value of the payments expected to be received in the next 12 months, and the remaining \$2.0 million is recorded in other non-current assets.

The table below sets forth the changes in the balance of the promissory note for the three months ended March 31, 2017.

| | Promissory Note | |
|---|------------------------|-------|
| Balance as of December 31, 2016 | \$ | 2,325 |
| Interest payments received | | (48) |
| Principal payment received | | (177) |
| Change in fair value of promissory note | | 113 |
| Balance as of March 31, 2017 | \$ | 2,213 |

Convertible debt investment: In 2014 and 2015, we invested \$27.9 million, in the form of zero coupon convertible debt, in Shorelight Holdings, LLC (“Shorelight”), the parent company of Shorelight Education, a U.S.-based company that partners with leading nonprofit universities to increase access to and retention of international students, boost institutional growth, and enhance an institution’s global footprint. The notes will mature on July 1, 2020, unless converted earlier.

To determine the appropriate accounting treatment for our investment, we performed a variable interest entity (“VIE”) analysis and concluded that Shorelight does not meet the definition of a VIE. We also reviewed the characteristics of our investment to confirm that the convertible notes are not in-substance common stock that would warrant equity method accounting. After we reviewed all of the terms of the investment, we concluded the appropriate accounting treatment to be that of an available-for-sale debt security.

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

The table below sets forth the changes in the balance of the convertible debt investment for the three months ended March 31, 2017.

| | Convertible Debt Investment | |
|---|------------------------------------|--------|
| Balance as of December 31, 2016 | \$ | 34,675 |
| Change in fair value of convertible debt investment | | 2,894 |
| Balance as of March 31, 2017 | \$ | 37,569 |

HURON CONSULTING GROUP INC.
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(Unaudited)

Contingent consideration for business acquisitions: We estimate the fair value of acquisition-related contingent consideration using either a probability-weighted assessment of the specific financial performance targets being achieved or a Monte Carlo simulation model, as appropriate. These fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 inputs. The significant unobservable inputs used in the fair value measurements of our contingent consideration are our measures of the estimated payouts based on internally generated financial projections on a probability-weighted basis and discount rates, which typically reflect a risk-free rate. The fair value of the contingent consideration is reassessed quarterly based on assumptions used in our latest projections and input provided by practice leaders and management. Any change in the fair value estimate is recorded in our consolidated statement of earnings of that period. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of our contingent consideration liability, which would result in different impacts to our consolidated balance sheets and consolidated statements of earnings. Actual results may differ from our estimates. Refer to Note 5 “Acquisitions” for information on the acquisitions completed in 2017. The current portion of the contingent consideration liabilities is recorded in accrued expenses and the long-term portion is recorded in deferred compensation and other liabilities.

The table below sets forth the changes in the balance of the contingent consideration for business acquisitions for the three months ended March 31, 2017.

| | Contingent Consideration for Business Acquisitions | |
|---|---|---------|
| Balance as of December 31, 2016 | \$ | 8,827 |
| Acquisitions | | 15,489 |
| Payments | | (1,000) |
| Unrealized loss due to foreign currency translation | | 48 |
| Balance as of March 31, 2017 | \$ | 23,364 |

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

Senior Secured Credit Facility

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

Convertible Notes

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

| | March 31, 2017 | | December 31, 2016 | |
|---|------------------------|-----------------------------|--------------------------|-----------------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| 1.25% convertible senior notes due 2019 | \$ 226,297 | \$ 231,520 | \$ 224,065 | \$ 245,018 |

The differences between the \$250 million principal amount of the Convertible Notes and the carrying amounts shown above represent the unamortized debt discount and issuance costs. As of March 31, 2017 and December 31, 2016, the carrying value of the equity component of \$39.3 million was unchanged from the date of issuance. Refer to Note 8 “Financing Arrangements” for additional details on our Convertible Notes. The estimated fair value of the Convertible Notes was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market, which is a Level 2 input, on the last day of trading for the quarters ended March 31, 2017 and December 31, 2016.

Based on the closing price of our common stock of \$42.10 on March 31, 2017, the if-converted value of the Convertible Notes was less than the principal amount.

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

HURON CONSULTING GROUP INC.
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(Unaudited)

12. Other Comprehensive Income (Loss)

The tables below set forth the components of other comprehensive income (loss), net of tax, for the three months ended March 31, 2017 and 2016.

| | Three Months Ended March 31, 2017 | | | Three Months Ended March 31, 2016 | | |
|---|--------------------------------------|-----------------------------|-----------------|--------------------------------------|-----------------------------|-----------------|
| | Before Taxes | Tax (Expense) Benefit | Net of Taxes | Before Taxes | Tax (Expense) Benefit | Net of Taxes |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustments | \$ 424 | \$ — | \$ 424 | \$ 21 | \$ — | \$ 21 |
| Unrealized gain on investment | \$ 2,894 | \$ (1,117) | \$ 1,777 | \$ 2,425 | \$ (953) | \$ 1,472 |
| Unrealized gain (loss) on cash flow hedges: | | | | | | |
| Change in fair value | \$ 38 | \$ (14) | \$ 24 | \$ (303) | \$ 119 | \$ (184) |
| Reclassification adjustments into earnings | 36 | (15) | 21 | 116 | (46) | 70 |
| Net unrealized gain (loss) | \$ 74 | \$ (29) | \$ 45 | \$ (187) | \$ 73 | \$ (114) |
| Other comprehensive income (loss) | \$ 3,392 | \$ (1,146) | \$ 2,246 | \$ 2,259 | \$ (880) | \$ 1,379 |

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

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

| | Foreign Currency Translation | Available-for-Sale Investment | Cash Flow Hedges | Total |
|----------------------------|---------------------------------|----------------------------------|------------------|----------|
| Balance, December 31, 2016 | \$ (453) | \$ 4,088 | \$ (20) | \$ 3,615 |
| Current period change | 424 | 1,777 | 45 | 2,246 |
| Balance, March 31, 2017 | \$ (29) | \$ 5,865 | \$ 25 | \$ 5,861 |

HURON CONSULTING GROUP INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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13. Income Taxes

The Company's effective tax rates for the three months ended March 31, 2017 and 2016 were 52.7% and 36.9%, respectively. The effective tax rate for the three months ended March 31, 2017 was higher than the statutory rate, inclusive of state income taxes, primarily due to discrete tax expense for share-based compensation of \$1.6 million due to the adoption of ASU 2016-09 *Improvements to Employee Share-Based Payment Accounting*. Refer to Note 3 "New Accounting Pronouncements" for additional information about our adoption of ASU 2016-09. The effective tax rate for the three months ended March 31, 2017 was also higher than the statutory rate, inclusive of state income taxes, due to certain non-deductible business expenses, partially offset by certain credits and deductions. The effective tax rate for the three months ended March 31, 2016 was lower than the statutory rate, inclusive of state income taxes, primarily due to certain credits and deductions, partially offset by non-deductible business expenses.

As of March 31, 2017, we have \$3.3 million of unrecognized tax benefits, of which \$0.9 million would affect the effective tax rate of continuing operations and \$2.4 million would affect the effective tax rate of discontinued operations, if recognized. As of March 31, 2017, we have \$2.4 million in unrecognized tax benefits related to positions taken on our tax returns for discontinued operations. While such tax returns remain subject to audit by tax authorities, it is reasonably possible that unrecognized tax benefits may decrease by \$2.4 million over the next 12 months due to the expiration of statute of limitations.

14. Commitments, Contingencies and Guarantees

Litigation

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

Guarantees

Guarantees in the form of letters of credit totaling \$2.2 million and \$4.8 million were outstanding at March 31, 2017 and December 31, 2016, respectively, primarily to support certain office lease obligations.

In connection with certain business acquisitions, we may be required to pay post-closing consideration to the sellers if specific financial performance targets are met over a number of years as specified in the related purchase agreements. As of March 31, 2017 and December 31, 2016, the total estimated fair value of our contingent consideration liabilities was \$23.4 million and \$8.8 million, respectively.

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

HURON CONSULTING GROUP INC.
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15. Segment Information

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

- **Healthcare**

Our Healthcare segment provides advisory services - from strategy setting through implementation - in the areas of organizational and resource alignment, clinical transformation, financial and operational performance, patient and caregiver engagement, and technology implementation and optimization. We serve national and regional hospitals and integrated health systems, academic medical centers, community hospitals, and medical groups. Our solutions help clients evolve and adapt to the rapidly changing healthcare environment and achieve growth, optimize performance, enhance profitability, improve quality and clinical outcomes, and drive physician, patient, and employee engagement across the enterprise.

- **Education and Life Sciences**

Our Education and Life Sciences segment provides management consulting and technology solutions to the higher education, academic medical center, pharmaceutical and medical device, biotechnology, and research industries. We partner with clients to address challenges relating to business and technology strategy, financial management, operational and organizational effectiveness, research administration, and regulatory compliance.

- **Business Advisory**

Our Business Advisory segment provides services to middle market and large organizations, not-for-profit organizations, lending institutions, law firms, investment banks, and private equity firms. We assist clients in a broad range of industries and across the spectrum from healthy, well-capitalized companies to organizations in transition as well as creditors, equity owners, and other key constituents. Our Business Advisory professionals resolve complex business issues and enhance client enterprise value through a suite of services including capital advisory, transaction advisory, operational improvement, restructuring and turnaround, valuation, and dispute advisory. Our Strategy and Innovation professionals collaborate with clients across a range of industries to identify new growth opportunities, build new ventures and capabilities, and accelerate organizational change. Our Enterprise Solutions and Analytics professionals deliver technology and analytic solutions that enable organizations to manage and optimize their financial performance, operational efficiency, and client or stakeholder experience. Our expertise in full-service enterprise performance management (EPM), enterprise resource planning (ERP), business intelligence and analytics, customer relationship management (CRM), and data management services helps clients identify and execute on business and technology strategies to drive results and gain a competitive advantage.

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

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

The table below sets forth information about our operating segments for the three months ended March 31, 2017 and 2016, along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements.

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2017 | 2016 |
| Healthcare: | | |
| Revenues | \$ 98,452 | \$ 114,018 |
| Operating income | \$ 34,150 | \$ 39,006 |
| Segment operating income as a percentage of segment revenues | 34.7% | 34.2% |
| Education and Life Sciences: | | |
| Revenues | \$ 52,485 | \$ 43,238 |
| Operating income | \$ 15,579 | \$ 10,208 |
| Segment operating income as a percentage of segment revenues | 29.7% | 23.6% |
| Business Advisory: | | |
| Revenues | \$ 37,912 | \$ 23,233 |
| Operating income | \$ 5,802 | \$ 2,699 |
| Segment operating income as a percentage of segment revenues | 15.3% | 11.6% |
| Total Company: | | |
| Revenues | \$ 188,849 | \$ 180,489 |
| Reimbursable expenses | 16,950 | 16,561 |
| Total revenues and reimbursable expenses | \$ 205,799 | \$ 197,050 |
| Segment operating income | \$ 55,531 | \$ 51,913 |
| Items not allocated at the segment level: | | |
| Other operating expenses | 32,463 | 30,123 |
| Depreciation and amortization | 8,919 | 7,414 |
| Other expense, net | 3,246 | 3,500 |
| Income from continuing operations before income tax expense | \$ 10,903 | \$ 10,876 |

At March 31, 2017 and December 31, 2016, no single client accounted for greater than 10% of our combined receivables and unbilled services balances. During the three months ended March 31, 2017 and 2016, no single client generated greater than 10% of our consolidated revenues.

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

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

Statements in this Quarterly Report on Form 10-Q that are not historical in nature, including those concerning the Company’s current expectations about its future requirements and needs, are “forward-looking” statements as defined in Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the Private Securities Litigation Reform Act of 1995. Forward-looking statements are identified by words such as “may,” “should,” “expects,” “provides,” “anticipates,” “assumes,” “can,” “will,” “meets,” “could,” “likely,” “intends,” “might,” “predicts,” “seeks,” “would,” “believes,” “estimates,” “plans,” “continues,” or “outlook,” or similar expressions. These forward-looking statements reflect our current expectations about our future requirements and needs, results, levels of activity, performance, or achievements. Some of the factors that could cause actual results to differ materially from the forward-looking statements contained herein include, without limitation: failure to achieve expected utilization rates, billing rates, and the number of revenue-generating professionals; inability to expand or adjust our service offerings in response to market demands; our dependence on renewal of client-based services; dependence on new business and retention of current clients and qualified personnel; failure to maintain third-party provider relationships and strategic alliances; inability to license technology to and from third parties; the impairment of goodwill; various factors related to income and other taxes; difficulties in successfully integrating the

businesses we acquire and achieving expected benefits from such acquisitions; risks relating to privacy, information security, and related laws and standards; and a general downturn in market conditions. These forward-looking statements involve known and unknown risks, uncertainties, and other factors, including, among others, those described under Item 1A. "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2016, that may cause actual results, levels of activity, performance or achievements to be materially different from any anticipated results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements. We disclaim any obligation to update or revise any forward-looking statements as a result of new information or future events, or for any other reason.

OVERVIEW

Our Business

Huron is a global professional services firm committed to achieving sustainable results in partnership with clients. We bring a depth of expertise in strategy, technology, operations, advisory services, and analytics to drive lasting and measurable results in the healthcare, higher education, life sciences and commercial sectors. Through focus, passion and collaboration, we provide guidance and solutions to support organizations as they contend with the change transforming their industries and businesses.

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

- **Healthcare**

Our Healthcare segment provides advisory services - from strategy setting through implementation - in the areas of organizational and resource alignment, clinical transformation, financial and operational performance, patient and caregiver engagement, and technology implementation and optimization. We serve national and regional hospitals and integrated health systems, academic medical centers, community hospitals and medical groups. Our solutions help clients evolve and adapt to the rapidly changing healthcare environment and achieve growth, optimize performance, enhance profitability, improve quality and clinical outcomes, and drive physician, patient and employee engagement across the enterprise.

- **Education and Life Sciences**

Our Education and Life Sciences segment provides management consulting and technology solutions to the higher education, academic medical center, pharmaceutical and medical device, biotechnology and research industries. We partner with clients to address challenges relating to business and technology strategy, financial management, operational and organizational effectiveness, research administration, and regulatory compliance.

- **Business Advisory**

Our Business Advisory segment provides services to middle market and large organizations, not-for-profit organizations, lending institutions, law firms, investment banks, and private equity firms. We assist clients in a broad range of industries and across the spectrum from healthy, well-capitalized companies to organizations in transition as well as creditors, equity owners, and other key constituents. Our Business Advisory professionals resolve complex business issues and enhance client enterprise value through a suite of services including capital advisory, transaction advisory, operational improvement, restructuring and turnaround, valuation, and dispute advisory. Our Strategy and Innovation professionals collaborate with clients across a range of industries to identify new growth opportunities, build new ventures and capabilities, and accelerate organizational change. Our Enterprise Solutions and Analytics professionals deliver technology and analytic solutions that enable organizations to manage and optimize their financial performance, operational efficiency, and client or stakeholder experience. Our expertise in full-service enterprise performance management (EPM), enterprise resource planning (ERP), business intelligence and analytics, customer relationship management (CRM), and data management services helps clients identify and execute on business and technology strategies to drive results and gain a competitive advantage.

Acquisitions

Pope Woodhead and Associates Limited

On January 9, 2017, we completed our acquisition of Pope Woodhead and Associates Limited ("Pope Woodhead"), a U.K.-based consulting firm providing market access capabilities to assist clients in developing value propositions for innovative medicines and technologies. The acquisition expands our life sciences strategy expertise and strengthens our ability to lead clients through complex payer and regulatory environments. Pope Woodhead's results of operations have been included in our consolidated financial statements and results of operations of our Education and Life Sciences segment from the date of acquisition.

Innosight Holdings LLC

On March 1, 2017, we completed our acquisition of Innosight Holdings LLC ("Innosight"), a growth strategy firm focused on helping companies navigate disruptive change, enable innovation, and manage strategic transformation. Together with Innosight, we will use our strategic, operational, and technology capabilities to help clients across multiple industries develop pioneering solutions to address disruption and achieve sustained growth. Innosight's results of operations have been included in our consolidated financial statements and results of operations of our Business Advisory segment from the date of acquisition.

See Note 5 "Acquisitions" within our consolidated financial statements for further information regarding our recent acquisitions.

How We Generate Revenues

A large portion of our revenues is generated by our full-time consultants who provide consulting services to our clients and are billable to our clients based on the number of hours worked. A smaller portion of our revenues is generated by our other professionals, also referred to as full-time equivalents, some of whom work variable schedules as needed by our clients. Full-time equivalent professionals consist of our cultural transformation consultants from our Studer Group solution, which include coaches and their support staff, specialized finance and operational consultants, and our employees who provide software support and maintenance services to our clients. We translate the hours that these other professionals work on client engagements into a full-time equivalent measure that we use to manage our business. We refer to our full-time consultants and other professionals collectively as revenue-generating professionals.

Revenues generated by our full-time consultants are primarily driven by the number of consultants we employ and their utilization rates, as well as the billing rates we charge our clients. Revenues generated by our other professionals, or full-time equivalents, are largely dependent on the number of consultants we employ, their hours worked, and billing rates charged. Revenues generated by our coaches are largely dependent on the number of coaches we employ and the total value, scope, and terms of the consulting contracts under which they provide services, which are primarily fixed-fee contracts.

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

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

Fixed-fee arrangements also include software licenses for our revenue cycle management software and research administration and compliance software. Licenses for our revenue cycle management software are sold only as a component of our consulting projects, and the services we provide are essential to the functionality of the software. Therefore, revenues from these software licenses are recognized over the term of the related consulting services contract. License revenue from our research administration and compliance software is generally recognized in the month in which the software is delivered.

Fixed-fee engagements represented 45.8% and 53.6% of our revenues for the three months ended March 31, 2017 and 2016, respectively.

Time-and-expense billing arrangements require the client to pay based on the number of hours worked by our revenue-generating professionals at agreed upon rates. Time-and-expense arrangements also include certain speaking engagements, conferences, and publications purchased by our clients outside of Partner Contracts within our Studer Group solution. We recognize revenues under time-and-expense billing arrangements as the related services or publications are provided. Time-and-expense engagements represented 42.8% and 33.3% of our revenues for the three months ended March 31, 2017 and 2016, respectively.

In performance-based fee billing arrangements, fees are tied to the attainment of contractually defined objectives. We enter into performance-based engagements in essentially two forms. First, we generally earn fees that are directly related to the savings formally acknowledged by the client as a result of adopting our recommendations for improving operational and cost effectiveness in the areas we review. Second, we have performance-based engagements in which we earn a success fee when and if certain predefined outcomes occur. Often, performance-based fees supplement our 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 6.4% and 8.4% of our revenues for the three months ended March 31, 2017 and 2016, respectively. Performance-based fee

engagements may cause significant variations in quarterly revenues and operating results depending on the timing of achieving the performance-based criteria.

Clients that have purchased one of our software licenses can pay an annual fee for software support and maintenance. We also generate subscription revenue from our cloud-based analytic tools and solutions. Software support and maintenance and subscription-based revenues are recognized ratably over the support or subscription period, which ranges from one to three years. These fees are billed in advance and included in deferred revenues until recognized. Software support and maintenance and subscription-based revenues represented 5.0% and 4.7% of our revenues for the three months ended March 31, 2017 and 2016, respectively.

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

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

Business Strategy, Opportunities and Challenges

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

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

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected segment and consolidated operating results and other operating data. The results of operations for acquired businesses have been included in our results of operations since the date of their respective acquisition.

| Segment and Consolidated Operating Results (in thousands, except per share amounts): | Three Months Ended March 31, | |
|---|---|-------------|
| | 2017 | 2016 |
| Healthcare: | | |
| Revenues | \$ 98,452 | \$ 114,018 |
| Operating income | \$ 34,150 | \$ 39,006 |
| Segment operating income as a percentage of segment revenues | 34.7% | 34.2% |
| Education and Life Sciences: | | |
| Revenues | \$ 52,485 | \$ 43,238 |
| Operating income | \$ 15,579 | \$ 10,208 |
| Segment operating income as a percentage of segment revenues | 29.7% | 23.6% |
| Business Advisory: | | |
| Revenues | \$ 37,912 | \$ 23,233 |
| Operating income | \$ 5,802 | \$ 2,699 |
| Segment operating income as a percentage of segment revenues | 15.3% | 11.6% |
| Total Company: | | |
| Revenues | \$ 188,849 | \$ 180,489 |
| Reimbursable expenses | 16,950 | 16,561 |
| Total revenues and reimbursable expenses | \$ 205,799 | \$ 197,050 |
| Segment operating income | \$ 55,531 | \$ 51,913 |
| Items not allocated at the segment level: | | |
| Other operating expenses | 32,463 | 30,123 |
| Depreciation and amortization | 8,919 | 7,414 |
| Total operating income | 14,149 | 14,376 |
| Other expense, net | (3,246) | (3,500) |
| Income from continuing operations before income tax expense | 10,903 | 10,876 |
| Income tax expense | 5,748 | 4,010 |
| Net income from continuing operations | \$ 5,155 | \$ 6,866 |
| Earnings per share from continuing operations: | | |
| Basic | \$ 0.24 | \$ 0.33 |
| Diluted | \$ 0.24 | \$ 0.32 |

| Other Operating Data: | Three Months Ended March 31, | |
|--|---------------------------------|--------|
| | 2017 | 2016 |
| Number of full-time billable consultants (at period end) ⁽¹⁾: | | |
| Healthcare | 857 | 1,023 |
| Education and Life Sciences | 604 | 497 |
| Business Advisory | 554 | 322 |
| Total | 2,015 | 1,842 |
| Average number of full-time billable consultants (for the period) ⁽¹⁾: | | |
| Healthcare | 867 | 1,026 |
| Education and Life Sciences | 595 | 487 |
| Business Advisory | 503 | 316 |
| Total | 1,965 | 1,829 |
| Full-time billable consultant utilization rate ⁽²⁾: | | |
| Healthcare | 72.3% | 80.5% |
| Education and Life Sciences | 73.3% | 71.4% |
| Business Advisory | 77.0% | 72.0% |
| Total | 73.9% | 76.6% |
| Full-time billable consultant average billing rate per hour ⁽³⁾: | | |
| Healthcare | \$ 228 | \$ 213 |
| Education and Life Sciences | \$ 228 | \$ 227 |
| Business Advisory | \$ 184 | \$ 199 |
| Total | \$ 216 | \$ 214 |
| Revenue per full-time billable consultant (in thousands): | | |
| Healthcare | \$ 76 | \$ 82 |
| Education and Life Sciences | \$ 78 | \$ 79 |
| Business Advisory | \$ 72 | \$ 71 |
| Total | \$ 76 | \$ 79 |
| Average number of full-time equivalents (for the period) ⁽⁴⁾: | | |
| Healthcare | 216 | 199 |
| Education and Life Sciences | 41 | 39 |
| Business Advisory | 19 | 7 |
| Total | 276 | 245 |
| Revenue per full-time equivalent (in thousands): | | |
| Healthcare | \$ 150 | \$ 151 |
| Education and Life Sciences | \$ 145 | \$ 123 |
| Business Advisory | \$ 104 | \$ 126 |
| Total | \$ 146 | \$ 146 |

- (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 of 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 cultural transformation consultants within our Studer Group solution, which include coaches and their support staff, consultants who work variable schedules as needed by our clients, and full-time employees who provide software support and maintenance services to our clients.

Non-GAAP Measures

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

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

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

| | Three Months Ended March 31, | |
|--|---|------------------|
| | 2017 | 2016 |
| Revenues | \$ 188,849 | \$ 180,489 |
| Net income from continuing operations | \$ 5,155 | \$ 6,866 |
| Add back: | | |
| Income tax expense | 5,748 | 4,010 |
| Interest expense, net of interest income | 4,004 | 3,971 |
| Depreciation and amortization | 11,905 | 10,800 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | 26,812 | 25,647 |
| Add back: | | |
| Restructuring charges | 279 | 1,333 |
| Other non-operating expense (income), net | 17 | (347) |
| Adjusted EBITDA | \$ 27,108 | \$ 26,633 |
| Adjusted EBITDA as a percentage of revenues | 14.4% | 14.8% |

| | Three Months Ended March 31, | |
|---|---|------------------|
| | 2017 | 2016 |
| Net income from continuing operations | \$ 5,155 | \$ 6,866 |
| Weighted average shares – diluted | 21,474 | 21,460 |
| Diluted earnings per share from continuing operations | \$ 0.24 | \$ 0.32 |
| Add back: | | |
| Amortization of intangible assets | 8,652 | 7,445 |
| Restructuring charges | 279 | 1,333 |
| Non-cash interest on convertible notes | 1,928 | 1,839 |
| Tax effect | (4,192) | (4,172) |
| Total adjustments, net of tax | 6,667 | 6,445 |
| Adjusted net income from continuing operations | \$ 11,822 | \$ 13,311 |
| Adjusted diluted earnings per share from continuing operations | \$ 0.55 | \$ 0.62 |

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

Other non-operating expense (income), net: We have excluded the effect of other non-operating expense (income), net which includes foreign currency transaction gains (losses) and other non-operating items. We exclude these items from the calculation of adjusted EBITDA because the amount of each gain or loss is significantly affected by timing and changes in foreign exchange rates.

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

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

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

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

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

Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Revenues

Revenues increased \$8.4 million, or 4.6%, to \$188.8 million for the first quarter of 2017 from \$180.5 million for the first quarter of 2016. First quarter 2017 revenues included \$12.8 million from our acquisitions of Healthcare Services Management, Inc. ("HSM Consulting"), Pope Woodhead, and Innosight, all of which were completed subsequent to the first quarter of 2016, and \$0.3 million of incremental revenues due to the full quarter impact of our acquisition of MyRounding Solutions, LLC ("MyRounding"). First quarter 2017 revenues also included revenues from our acquisition of the U.S. assets of ADI Strategies, Inc. ("ADI Strategies"), which was completed subsequent to the first quarter of 2016 and has since been fully integrated into the Business Advisory segment.

Of the overall \$8.4 million increase in revenues, \$4.6 million was attributable to our full-time equivalents and \$3.8 million was attributable to our full-time billable consultants.

The increase in full-time equivalent revenues reflected an increase in the average number of full-time equivalents for the first quarter of 2017 compared to the prior year period, and was primarily attributable to an increased use of contractors in all three of our segments and our recent acquisitions of HSM Consulting and ADI Strategies.

The increase in full-time billable consultant revenues reflected an increase in the average number of billable consultants, partially offset by a decrease in the consultant utilization rate. As discussed below in Segment Results, this increase in revenue attributable to our full-time billable consultants reflected strengthened demand for our services in the Education and Life Sciences and Business Advisory segments, partially offset by decreased demand for our services in the Healthcare segment.

Total Direct Costs

Our total direct costs, including amortization of intangible assets and software development costs, increased \$3.5 million, or 3.0%, to \$118.7 million in the three months ended March 31, 2017, from \$115.2 million in the three months ended March 31, 2016. The \$3.5 million increase primarily related to a \$5.6 million increase in salaries and related expenses for our revenue-generating professionals, which was largely driven by increased headcount from acquisitions and our ongoing cloud-based enterprise resource planning (ERP) investment, partially offset by decreases in salaries and related expenses in our Healthcare segment, and a \$0.7 million increase in contractor expense. These increases were partially offset by a \$2.8 million decrease in performance bonus expense for our revenue-generating professionals. As a percentage of revenues, our total direct costs decreased to 62.9% during the first quarter of 2017 compared to 63.9% during the first quarter of 2016, primarily due to revenue growth, driven by acquisitions, that outpaced the increase in total direct costs.

Total direct costs for the three months ended March 31, 2017 included \$3.0 million of amortization expense for intangible assets, primarily representing customer contracts and software acquired in business combinations, and internal software development costs, compared to \$3.4 million of amortization expense for the same prior year period. The \$0.4 million decrease in amortization expense was primarily attributable to the decreasing amortization expense of customer contracts acquired in our Studer Group acquisition, due to the accelerated basis of amortization, partially offset by amortization of intangible assets acquired in the Innosight acquisition, which we completed in the first quarter of 2017. See Note 5 "Acquisitions" and Note 6 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets.

Operating Expenses

Selling, general and administrative expenses increased \$4.8 million, or 11.4%, to \$46.9 million in the first quarter of 2017 from \$42.1 million in the first quarter of 2016. The \$4.8 million increase primarily related to a \$3.5 million increase in salaries and related expenses for our support personnel, a \$0.9 million increase in legal expenses, primarily driven by recent acquisitions, a \$0.6 million increase in facilities and other office-related expenses, and a \$0.5 million increase in practice administration and meetings expense, partially offset by a \$0.8 million decrease in performance bonus expense for our support personnel. As a percentage of revenues, selling, general and administrative expenses increased to 24.8% during the first quarter of 2017 compared to 23.3% during the first quarter of 2016, primarily due to the items described above.

Restructuring charges for the first quarter of 2017 totaled \$0.3 million, compared to \$1.3 million for the first quarter of 2016. The \$0.3 million charge incurred in the first quarter of 2017 primarily related to updated assumptions for lease accruals. The \$1.3 million charge incurred in the first quarter of 2016 primarily consisted of \$0.8 million related to workforce reductions in our corporate operations as we adjusted our infrastructure to align with our Huron Legal divestiture, \$0.2 million related to updated assumptions for the lease accrual of the Washington, D.C. space vacated in the fourth quarter of 2014, and \$0.2 million related to the wind down of our foreign consulting operations based in the Middle East. See Note 9 "Restructuring Charges" within the notes to our consolidated financial statements for further discussion of our restructuring expenses.

Depreciation and amortization expense increased by \$1.5 million to \$8.9 million in the three months ended March 31, 2017 from \$7.4 million in the three months ended March 31, 2016. The increase was primarily attributable to an increase in amortization expense for intangible assets acquired in the ADI Strategies, HSM Consulting, Pope Woodhead, and Innosight acquisitions, all of which were completed subsequent to the first quarter of 2016, and an increase in amortization expense for a customer-related intangible asset acquired in the Studer Group acquisition. Intangible asset amortization included within operating expenses primarily relates to certain customer relationships, non-competition agreements, and trade names acquired in connection with our business acquisitions. See Note 5 "Acquisitions" and Note 6 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets.

Operating Income

Operating income decreased \$0.2 million, or 1.6%, to \$14.1 million in the first quarter of 2017 from \$14.4 million in the first quarter of 2016. Operating margin, which is defined as operating income expressed as a percentage of revenues, decreased to 7.5% in the three months ended March 31, 2017, compared to 8.0% in the three months ended March 31, 2016. The decrease in operating margin was primarily attributable to the increases in salaries and related expenses for both our revenue-generating professionals and support personnel and legal expenses, all as a percentage of revenues, largely offset by the decrease in performance bonus expense for both our revenue-generating professionals and our support personnel during the first three months of 2017 compared to the same prior year period, as described above.

Other Expense, Net

Total other expense, net decreased by \$0.3 million to \$3.2 million in the first quarter of 2017 from \$3.5 million in the first quarter of 2016. The decrease was primarily attributable to a \$0.8 million gain in the first quarter of 2017 from an increase in the market value of our investments that are used to fund our deferred compensation liability, compared to a \$0.1 million gain in the first quarter of 2016. The decrease was partially offset by a \$0.1 million foreign currency transaction loss in the first quarter of 2017, compared to a \$0.4 million gain in the first quarter of 2016. Interest expense, net of interest income was \$4.0 million for both the three months ended March 31, 2017 and 2016.

Income Tax Expense

For the first quarter of 2017, our effective tax rate was 52.7% as we recognized income tax expense from continuing operations of \$5.7 million on income from continuing operations of \$10.9 million. For the first quarter of 2016, our effective tax rate was 36.9% as we recognized income tax expense from continuing operations of \$4.0 million on income from continuing operations of \$10.9 million. The effective tax rate for the three months ended March 31, 2017 was higher than the statutory rate, inclusive of state income taxes, primarily due to discrete tax expense related to share-based compensation of \$1.6 million due to the adoption of ASU 2016-09 *Improvements to Employee Share-Based Payment Accounting*. See Note 3 "New Accounting Pronouncements" within the notes to our consolidated financial statements for additional information about our adoption of ASU 2016-09. The effective tax rate for the three months ended March 31, 2017 was also higher than the statutory rate, inclusive of state income taxes, due to certain non-deductible business expenses, partially offset by certain credits and deductions. The effective tax rate for the three months ended March 31, 2016 was lower than the statutory tax rate, inclusive of state income taxes, primarily due to certain credits and deductions, partially offset by non-deductible business expenses.

Net Income from Continuing Operations

Net income from continuing operations decreased by \$1.7 million, or 24.9%, to \$5.2 million for the three months ended March 31, 2017, from \$6.9 million for the same period last year. As a result of the decrease in net income from continuing operations, diluted earnings per share from continuing operations for the first quarter of 2017 was \$0.24 compared to \$0.32 for the first quarter of 2016.

Discontinued Operations

Net income from discontinued operations was \$0.1 million for the three months ended March 31, 2017, compared to net loss from discontinued operations of \$0.9 million for the same period last year. See Note 4 "Discontinued Operations" within the notes to our consolidated financial statements for additional information about our discontinued operations.

EBITDA and Adjusted EBITDA

EBITDA increased \$1.2 million to \$26.8 million for the three months ended March 31, 2017 from \$25.6 million for the three months ended March 31, 2016. Adjusted EBITDA increased \$0.5 million to \$27.1 million in the first quarter of 2017 from \$26.6 million in the first quarter of 2016. The increase in both EBITDA and adjusted EBITDA was primarily due to the increase in segment operating income, as discussed below in Segment Results, partially offset by an increase in corporate expenses.

Adjusted Net Income from Continuing Operations

Adjusted net income from continuing operations decreased \$1.5 million, or 11.2%, to \$11.8 million in the first quarter of 2017 compared to \$13.3 million in the first quarter of 2016. As a result of the decrease in adjusted net income from continuing operations, adjusted diluted earnings per share from continuing operations was \$0.55 for the first quarter of 2017, compared to \$0.62 for the first quarter of 2016.

Segment Results

Healthcare

Revenues

Healthcare segment revenues decreased \$15.6 million, or 13.7%, to \$98.5 million for the first quarter of 2017 from \$114.0 million for the first quarter of 2016. Revenues for the first quarter of 2017 included \$5.5 million from our acquisition of HSM Consulting, which was completed subsequent to the first quarter of 2016, and \$0.3 million of incremental revenues due to the full quarter impact of our acquisition of MyRounding.

During the three months ended March 31, 2017, revenues from fixed-fee engagements, time-and-expense engagements, performance-based arrangements, and software support and maintenance and subscription arrangements represented 66.1%, 15.2%, 11.9%, and 6.8% of this segment's revenues, respectively, compared to 74.0%, 8.4%, 12.2%, and 5.4% of this segment's revenues, respectively, for the same prior year period.

Of the overall \$15.6 million decrease in revenues, \$17.9 million was attributable to a decrease in revenue from our full-time billable consultants, partially offset by a \$2.3 million increase in revenue generated by our full-time equivalents.

The decrease in revenue attributable to our full-time billable consultants reflected decreases in the average number of full-time billable consultants and consultant utilization rate, partially offset by an increase in the average billing rate. This decrease in revenue was primarily driven by a decreased demand for our performance improvement solution. Performance-based fee revenue was \$11.7 million during the first quarter of 2017 compared to \$13.9 million during the first quarter of 2016. The level of performance-based fees earned may vary based on our clients' risk sharing preferences and the mix of services we provide. Performance-based fee arrangements may cause significant variations in revenues, operating results, and average billing rates due to our level of execution and the timing of achievement of the performance-based criteria.

The increase in revenue attributable to our full-time equivalents was primarily driven by an increase in the average number of full-time equivalents, largely due to our acquisition of HSM Consulting.

Operating Income

Healthcare segment operating income decreased \$4.9 million, or 12.4%, to \$34.2 million for the three months ended March 31, 2017 from \$39.0 million for the three months ended March 31, 2016. The Healthcare segment operating margin, defined as segment operating income expressed as a percentage of segment revenues, slightly increased to 34.7% for the first quarter of 2017 from 34.2% in the same period last year. The slight increase in this segment's operating margin was primarily attributable to a decrease in performance bonus expense for our revenue-generating professionals as a percentage of revenues, partially offset by increases in contractor expenses and salaries and related expenses for our support personnel.

Over the past year, the Healthcare segment has experienced declining revenues, primarily driven by softness in our revenue cycle offering within our performance improvement solution. This softness is attributable to decreased demand for our services, the winding down of some of our larger projects and a trend toward smaller projects, as well as fewer large integrated projects. In light of these challenges, several initiatives have been undertaken to improve the segment's financial performance, including repositioning our solutions to address the most critical needs of our clients, the expansion of our existing services such as those in our Studer Group, strategy, physician and technology offerings, as well as workforce reductions to better align resources with market demand. We performed our annual goodwill impairment test on our Healthcare segment as of November 30, 2016. Based on the results of the first step of this goodwill impairment analysis, the reporting unit's fair value exceeded its carrying value by 11%. During the first three months of 2017, the Healthcare segment's performance continued to reasonably meet our expectations such that no triggering event for an interim goodwill impairment analysis was identified. In the event that the financial performance of the Healthcare segment does not meet our expectations during 2017, we may be required to perform an interim impairment analysis with respect to the carrying value of goodwill for this reporting unit prior to our annual test, and based on the outcome of that analysis, could be required to take a non-cash impairment charge as a result of any such test. As of March 31, 2017, the Healthcare segment's carrying amount of goodwill was \$636.8 million. For further discussion of our 2016 annual goodwill impairment test, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2016.

Education and Life Sciences

Revenues

Education and Life Sciences segment revenues increased \$9.2 million, or 21.4%, to \$52.5 million for the first quarter of 2017 from \$43.2 million for the first quarter of 2016. Revenues for the first quarter of 2017 included \$2.1 million from our acquisition of Pope Woodhead, which was completed in the first quarter of 2017.

During the three months ended March 31, 2017, revenues from fixed-fee engagements, time-and-expense engagements, performance-based arrangements, and software support and maintenance and subscription arrangements represented 24.4%, 70.7%, 0.5%, and 4.4% of this segment's revenues, respectively, compared to 21.3%, 72.8%, 0.8%, and 5.1% of this segment's revenues, respectively, for the same prior year period.

Of the overall \$9.2 million increase in revenues, \$8.1 million was attributable to our full-time billable consultants and \$1.2 million was attributable to our full-time equivalents. The increase in revenue attributable to our full-time billable consultants reflected increases in the average number of full-time billable consultants and consultant utilization rate. The increase in revenue from our full-time equivalents reflected increases in both the revenue per full-time equivalent and the average number of full-time equivalents in the first quarter of 2017 compared to the same prior year period.

Operating Income

Education and Life Sciences segment operating income increased \$5.4 million, or 52.6%, to \$15.6 million for the three months ended March 31, 2017 from \$10.2 million for the three months ended March 31, 2016. Segment operating margin increased to 29.7% for the first quarter of 2017 from 23.6% in the same period last year. The increase in this segment's operating margin was primarily attributable to revenue growth that outpaced increases in salaries and related expense and performance bonus expense for our revenue-generating professionals, as well as decreases in contractor expense and project costs.

Business Advisory

Revenues

Business Advisory segment revenues increased \$14.7 million, or 63.2%, to \$37.9 million for the first quarter of 2017 from \$23.2 million for the first quarter of 2016. Revenues for the first quarter of 2017 included \$5.2 million from our acquisition of Innosight, which was completed on March 1, 2017. The increase in revenue also reflected our acquisition of the U.S. assets of ADI Strategies, which was completed subsequent to the first quarter of 2016 and has since been fully integrated into the Business Advisory segment.

Revenues from fixed-fee engagements, time-and-expense engagements, performance-based arrangements, and software support and maintenance and subscription arrangements represented 22.2%, 75.8%, 0.6%, and 1.4% of this segment's revenues, respectively, during the first quarter of 2017, compared to 13.7%, 82.2%, 3.6%, and 0.5% of this segment's revenues, respectively, during the first quarter of 2016. Performance-based fee revenue was \$0.2 million for the first quarter of 2017 compared to \$0.8 million for the first quarter of 2016. The level of performance-based fees earned may vary based on our clients' preferences and the mix of services we provide. Performance-based fee arrangements may cause significant variations in revenues, operating results, and average billing rates due to our level of execution and the timing of achievement of the performance-based criteria.

Of the overall \$14.7 million increase in revenues, \$13.6 million was attributable to our full-time billable consultants and \$1.1 million was attributable to our full-time equivalents. The increase in revenue from our full-time billable consultants reflected increases in both the average number of full-time billable consultants and consultant utilization rate, partially offset by a decrease in the average billing rate. The increase in the average number of full-time billable consultants was primarily the result of our acquisitions of ADI Strategies and Innosight. The increase in revenue from our full-time equivalents reflected an increase in the average number of full-time equivalents, partially offset by a decrease in revenue per full-time equivalent in the first quarter of 2017 compared to the same prior year period.

Operating Income

Business Advisory segment operating income increased by \$3.1 million, or 115.0%, to \$5.8 million for the three months ended March 31, 2017 from \$2.7 million for the three months ended March 31, 2016. Segment operating margin increased to 15.3% for the first quarter of 2017 from 11.6% in the same period last year. The increase in this segment's operating margin was primarily attributable to revenue growth that outpaced an increase in performance bonus expense for our revenue generating professionals, as well as decreases in share-based compensation expense for our revenue-generating professionals and project costs. These increases to operating margin were partially offset by increases in salaries and related benefits and other bonuses for our revenue-generating professionals and intangible asset amortization expense, all as a percentage of revenues.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased \$4.4 million, from \$17.0 million at December 31, 2016 to \$12.7 million at March 31, 2017. As of March 31, 2017, our primary sources of liquidity are cash on hand, cash flows from our U.S. operations, and borrowing capacity available under our credit facility.

| Cash Flows (in thousands): | Three Months Ended March 31, | |
|---|---|-------------|
| | 2017 | 2016 |
| Net cash used in operating activities | \$ (18,392) | \$ (9,021) |
| Net cash used in investing activities | (108,541) | (17,098) |
| Net cash provided by (used in) financing activities | 122,551 | (19,019) |
| Effect of exchange rate changes on cash | 22 | 158 |
| Net decrease in cash and cash equivalents | \$ (4,360) | \$ (44,980) |

Operating Activities

Net cash used in operating activities totaled \$18.4 million for the three months ended March 31, 2017 and \$9.0 million for the same period last year. Our operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable and accrued expenses, accrued payroll and related benefits, and deferred revenues. The volume of services rendered and the related billings and timing of collections on those billings, as well as payments of our accounts payable and salaries, bonuses, and related benefits to employees affect these account balances.

The increase in cash used in operations for the first three months of 2017 compared to the same prior year period, was primarily attributable to the collection of a settlement receivable in the first quarter of 2016 and a decrease in cash collections from clients, partially offset by decreased vendor, employee, and tax payments.

Investing Activities

Net cash used in investing activities was \$108.5 million for the three months ended March 31, 2017 and \$17.1 million for the same period last year.

The use of cash in the first three months of 2017 primarily consisted of \$101.8 million for the purchases of businesses and \$6.5 million for purchases of property and equipment, primarily related to leasehold improvements and purchases of furniture and fixtures for new office spaces in certain locations. The use of cash in the first three months of 2016 primarily consisted of \$14.0 million for the purchase of a business and \$2.0 million for purchases of property and equipment.

We estimate that cash utilized for purchases of property and equipment in 2017 will be approximately \$25.0 million, primarily consisting of leasehold improvements and information technology related equipment to support our corporate infrastructure.

Financing Activities

Net cash provided by financing activities was \$122.6 million for the three months ended March 31, 2017. During the first three months of 2017, we borrowed \$179.0 million under our credit facility, primarily to fund our acquisitions of Innosight and Pope Woodhead and our annual performance bonus payment, and made repayments on our credit facility of \$51.0 million.

Net cash used in financing activities was \$19.0 million for the three months ended March 31, 2016. During the first three months of 2016, we repurchased and retired \$55.3 million of our common stock under our Share Repurchase Program, as defined below, and had net borrowings of \$40.5 million under our credit facility, primarily to fund our annual performance bonus payment.

Share Repurchase Program

We currently have a share repurchase program permitting us to repurchase up to \$125 million of our common stock through October 31, 2017 (the "Share Repurchase Program"). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our line of credit, general market and business conditions, and applicable legal requirements. During the first quarter of 2016, we repurchased and retired 982,192 shares for \$55.3 million. No shares were repurchased in the first quarter of 2017. As of March 31, 2017, \$35.1 million remains available for share repurchases.

Financing Arrangements

At March 31, 2017, we had \$250.0 million principal amount of our 1.25% convertible senior notes outstanding and \$196.0 million outstanding under our senior secured credit facility, as discussed below.

1.25% Convertible Senior Notes

In September 2014, we issued \$250.0 million principal amount of the Convertible Notes in a private offering. The Convertible Notes are senior unsecured obligations of the Company and will pay interest semi-annually on April 1 and October 1 of each year at an annual rate of 1.25%. The Convertible Notes will mature on October 1, 2019, unless earlier repurchased by the Company or converted in accordance with their terms.

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

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

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

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

Senior Secured Credit Facility

The Company has a \$500 million senior secured revolving credit facility, subject to the terms of a Second Amended and Restated Credit Agreement dated as of March 31, 2015 and amended by the first amendment to the credit agreement dated February 25, 2017 (as amended and modified the "Amended Credit Facility"), that becomes due and payable in full upon maturity on March 31, 2020. The Amended Credit Agreement provides the option to increase the revolving credit facility or establish term loan facilities in an aggregate amount of up to \$100 million, subject to customary conditions and the approval of any lender whose commitment would be increased, resulting in a maximum available principal amount under the Amended Credit Agreement of \$600 million. The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under a prior credit agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, acquisitions of businesses, share repurchases, and general corporate purposes.

Fees and interest on borrowings vary based on our Consolidated Leverage Ratio (as defined in the Amended Credit Agreement). At our option, borrowings under the Amended Credit Agreement will bear interest at one, two, three or six-month LIBOR or an alternate base rate, in each case plus the applicable margin. The applicable margin will fluctuate between 1.25% per annum and 2.00% per annum, in the case of LIBOR borrowings, or between 0.25% per annum and 1.00% per annum, in the case of base rate loans, based upon our Consolidated Leverage Ratio at such time.

Amounts borrowed under the Amended Credit Agreement may be prepaid at any time without premium or penalty. We are required to prepay the amounts outstanding under the Amended Credit Agreement in certain circumstances, including a requirement to pay all amounts outstanding under the Amended Credit Agreement 90 days prior to the Convertible Indebtedness Maturity Date (as defined in the Amended Credit Agreement) unless (1) the Convertible Indebtedness Maturity Date is waived or extended to a later date, (2) the Company can demonstrate (a) Liquidity (as defined in the Amended Credit Agreement) in an amount at least equal to the principal amount due on the Convertible Indebtedness Maturity Date, and (b) financial covenant compliance after giving effect to such payments and any additional indebtedness incurred on a pro forma basis, or (3) this requirement is waived by the Required Lenders (as defined in the Amended Credit Agreement). In addition, we have the right to permanently reduce or terminate the unused portion of the commitments provided under the Amended Credit Agreement at any time.

The Amended Credit Agreement contains usual and customary representations and warranties; affirmative and negative covenants, which include limitations on liens, investments, additional indebtedness, and restricted payments; and two quarterly financial covenants as follows: (i) a maximum Consolidated Leverage Ratio (defined as the ratio of debt to consolidated EBITDA) ranging from 3.25 to 1.00 to 3.75 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (defined as the ratio of consolidated EBITDA to interest) of 3.50 to 1.00. Consolidated EBITDA for purposes of the financial covenants is calculated on a continuing operations basis and includes adjustments to add back share-based compensation costs, certain non-cash restructuring charges, and pro forma historical EBITDA for businesses acquired. At March 31, 2017, we were in compliance

with these financial covenants with a Consolidated Leverage Ratio of 2.90 to 1.00 and a Consolidated Interest Coverage Ratio of 19.94 to 1.00.

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

Borrowings outstanding under the Amended Credit Agreement at March 31, 2017 totaled \$196.0 million. These borrowings carried a weighted average interest rate of 2.4%, including the effect of the interest rate swap described in Note 10 “Derivative Instruments and Hedging Activity” within the notes to the consolidated financial statements. Borrowings outstanding under the Amended Credit Agreement at December 31, 2016 were \$68.0 million and carried a weighted average interest rate of 2.5%. The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At March 31, 2017, we had outstanding letters of credit totaling \$2.2 million, which are primarily used as security deposits for our office facilities. As of March 31, 2017, the unused borrowing capacity under the revolving credit facility was \$301.8 million.

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

Future Needs

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

CONTRACTUAL OBLIGATIONS

For a summary of our commitments to make future payments under contractual obligations, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations” in our Annual Report on Form 10-K for the year ended December 31, 2016.

In connection with the business acquisitions completed during the first three months of 2017, we entered into contingent consideration arrangements, under which we may be required to pay post-closing consideration to the sellers if specific financial performance targets are met over a number of years as specified in the related purchase agreements. The preliminary aggregate fair value of the contingent consideration liabilities on the dates of acquisition was \$15.5 million. Refer to Note 5 “Acquisitions” within the notes to the consolidated financial statements for additional information on the businesses acquired during the first three months of 2017.

There have been no other material changes to our contractual obligations since December 31, 2016.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES

Management’s discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. We regularly review our financial reporting and disclosure practices and accounting policies to ensure that our financial reporting and disclosures provide accurate information relative to the current economic and business environment. The preparation of financial statements in conformity with GAAP requires management to make assessments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Critical accounting policies are those policies that we believe present the most complex or subjective measurements and have the most potential to impact our financial position and operating results. While all decisions regarding accounting policies are important, we believe there are five accounting policies that could be considered critical: revenue recognition, allowances for doubtful accounts and unbilled services, business combinations, carrying values of goodwill and other intangible assets, and accounting for income taxes. For a detailed discussion of these critical accounting policies, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended

December 31, 2016. Below is an update to our critical accounting policy related to the carrying value of goodwill and other intangible assets. There have been no material changes to our other critical accounting policies during the first three months of 2017.

Carrying Values of Goodwill and Other Intangible Assets

On March 1, 2017, we completed our acquisition of Innosight, a growth strategy firm focused on helping companies navigate disruptive change, enable innovation, and manage strategic transformation. Innosight's results of operations have been included in our consolidated financial statements and results of operations of our Business Advisory segment from the date of acquisition.

The goodwill recorded as part of the allocation of the purchase price of Innosight has been assigned to Innosight as a separate reporting unit. As a result, as of March 31, 2017, we have five reporting units with goodwill balances: our Healthcare and Education and Life Sciences segments, and our Business Advisory, Enterprise Solutions and Analytics, and Innosight practices, which together make up our Business Advisory operating segment.

The carrying values of goodwill for each of our reporting units as of March 31, 2017 are as follows (in thousands):

| Reporting Unit | Carrying Value of Goodwill |
|------------------------------------|-----------------------------------|
| Healthcare | \$ 636,802 |
| Education and Life Sciences | 113,302 |
| Business Advisory | 16,094 |
| Enterprise Solutions and Analytics | 44,128 |
| Innosight | 87,426 |
| Total | <u>\$ 897,752</u> |

Over the past year, the Healthcare segment has experienced declining revenues, primarily driven by softness in our revenue cycle offering within our performance improvement solution. This softness is attributable to decreased demand for our services, the winding down of some of our larger projects and a trend toward smaller projects, as well as fewer large integrated projects. In light of these challenges, several initiatives have been undertaken to improve the segment's financial performance, including repositioning our solutions to address the most critical needs of our clients, the expansion of our existing services such as those in our Studer Group, strategy, physician and technology offerings, as well as workforce reductions to better align resources with market demand. We performed our annual goodwill impairment test on our Healthcare segment as of November 30, 2016. Based on the results of the first step of this goodwill impairment analysis, the reporting unit's fair value exceeded its carrying value by 11%. During the first three months of 2017, the Healthcare segment's performance continued to reasonably meet our expectations such that no triggering event for an interim goodwill impairment analysis was identified. In the event that the financial performance of the Healthcare segment does not meet our expectations during 2017, we may be required to perform an interim impairment analysis with respect to the carrying value of goodwill for this reporting unit prior to our annual test, and based on the outcome of that analysis, could be required to take a non-cash impairment charge as a result of any such test.

Our Enterprise Solutions and Analytics reporting unit was established with the acquisition of Blue Stone International, LLC in 2013. Since that time, we have completed four additional business acquisitions, most recently the acquisition of the U.S. assets of ADI Strategies in May 2016. We record the assets acquired and liabilities assumed in business combinations, including identifiable intangible assets, at their estimated fair values as of the acquisition date, and goodwill is recorded as the excess of the fair value of consideration transferred, including any contingent consideration, over the fair value of the net assets acquired. Therefore, the initial accounting for an acquisition results in its fair value equaling its carrying value. We performed our annual goodwill impairment test as of November 30, 2016, pursuant to our policy, and based on the results of the first step of the Enterprise Solutions and Analytics goodwill impairment analysis, the reporting unit's fair value exceeded its carrying value by 11%. During the first three months of 2017, the Enterprise Solutions and Analytics' performance continued to reasonably meet our expectations such that no triggering event for an interim goodwill impairment analysis was identified. Due to this reporting unit's relatively low headroom, in the event that the financial performance of the reporting unit does not meet our expectations during 2017, we may be required to perform an interim impairment analysis with respect to the carrying value of goodwill for this reporting unit prior to our annual test, and based on the outcome of that analysis, could be required to take a non-cash impairment charge as a result of any such test.

For further discussion of our 2016 annual goodwill impairment test, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" in our Annual Report on Form 10-K for the year ended December 31, 2016.

NEW ACCOUNTING PRONOUNCEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Market Risk and Interest Rate Risk

The value of our Convertible Notes is exposed to interest rate risk. Generally, the fair value of our fixed interest rate Convertible Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair value of our Convertible Notes is affected by our stock price. The carrying value of our Convertible Notes was \$226.3 million as of March 31, 2017, which represents the liability component of the \$250.0 million principal balance. The estimated fair value of our Convertible Notes at March 31, 2017 was \$231.5 million, and was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market as of the last day of trading for the quarter ended March 31, 2017, which was \$92.608 per \$100 principal amount.

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

We have exposure to changes in interest rates associated with borrowings under our bank credit facility, which has variable interest rates tied to LIBOR or an alternate base rate, at our option. At March 31, 2017, we had borrowings outstanding under the credit facility totaling \$196.0 million that carried a weighted average interest rate of 2.4%, including the effect of the interest rate swap outstanding described below. A hypothetical 100 basis point change in this interest rate would have a \$1.3 million effect on our pretax income including the effect of the interest rate swap described below. At December 31, 2016, our borrowings outstanding under the credit facility totaled \$68.0 million and carried a weighted average interest rate of 2.5%, including the effect of the interest rate swaps described below. The outstanding borrowings at December 31, 2016 were fully hedged against changes in interest rates by our interest rate swaps, which had a notional amount of \$68.0 million at December 31, 2016.

On April 4, 2013, we entered into a forward amortizing interest rate swap agreement effective March 31, 2014 and ending August 31, 2017. We entered into this derivative instrument to hedge against the interest rate risks of our variable-rate borrowings. The swap had an initial notional amount of \$60.0 million and amortized quarterly until April 2016. In April 2016, the notional amount of this interest rate swap increased to \$86.0 million and continues to amortize quarterly throughout the remaining term. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 0.985%.

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

We have a non-interest bearing convertible debt investment in a privately-held company, which we account for as an available-for-sale debt security. As such, the investment is carried at fair value with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income. As of March 31, 2017, the fair value of the investment was \$37.6 million, with a total cost basis of \$27.9 million.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2017. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2017, our disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports we file or submit under the Exchange Act, and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

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

ITEM 1A. RISK FACTORS.

See "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 for a complete description of the material risks we face.

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

On March 1, 2017, as partial consideration for our acquisition of Innosight, we issued 221,558 shares of our common stock, par value \$0.01 per share, with an aggregate value of approximately \$9.6 million. The issuance was exempt from registration under Section 4(a)(2) of the Securities Act of 1933, as amended, as a transaction by an issuer not involving a public offering.

Our Stock Ownership Participation Program, 2012 Omnibus Incentive Plan, and 2004 Omnibus Stock Plan, which was replaced by the 2012 Omnibus Incentive Plan, permit the netting of common stock upon vesting of restricted stock awards to satisfy individual tax withholding requirements. During the quarter ended March 31, 2017, we reacquired 95,565 shares of common stock with a weighted average fair market value of \$43.75 as a result of such tax withholdings.

In October 2014, our board of directors authorized a share repurchase program pursuant to which we may, from time to time, repurchase our common stock (the "Share Repurchase Program"). The Share Repurchase Program allows us to repurchase up to \$125 million of our common stock and expires on October 31, 2017. The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our line of credit, general market and business conditions, and applicable legal requirements.

The following table provides information with respect to purchases we made of our common stock during the quarter ended March 31, 2017.

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Dollar Value of Shares that may yet be Purchased under the Plans or Programs ⁽²⁾ |
|--------------------------------------|--|-------------------------------------|---|--|
| January 1, 2017 - January 31, 2017 | 4,058 | \$ 50.65 | — | \$ 35,143,546 |
| February 1, 2017 - February 28, 2017 | 8,506 | \$ 43.65 | — | \$ 35,143,546 |
| March 1, 2017 - March 31, 2017 | 83,001 | \$ 43.42 | — | \$ 35,143,546 |
| Total | 95,565 | \$ 43.75 | — | |

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

(2) As of the end of the period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

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

| Exhibit Number | Exhibit Description | Filed herewith | Furnished herewith | Incorporated by Reference | | | |
|----------------|--|----------------|--------------------|---------------------------|---------------|---------|-------------|
| | | | | Form | Period Ending | Exhibit | Filing Date |
| 10.1 | Amendment No. 1 of the Credit Agreement, dated as of February 28, 2017, by and among Huron Consulting Group Inc., as Borrower, certain subsidiaries, as Guarantors, and Bank of America, N.A., as Administrative Agent for and on behalf of the Lenders. | | | 8-K | | 10.1 | 3/6/2017 |
| 31.1 | Certification of the Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | | | |
| 31.2 | Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | | | |
| 32.1 | Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | X | | | | |
| 32.2 | Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | X | | | | |
| 101.INS | XBRL Instance Document | X | | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X | | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | X | | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | X | | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | X | | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | X | | | | | |

SIGNATURE

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

Huron Consulting Group Inc.

(Registrant)

Date: May 1, 2017

/s/ JOHN D. KELLY

John D. Kelly
Executive Vice President,
Chief Financial Officer and Treasurer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER,
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James H. Roth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huron Consulting Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 5/1/2017

By: /S/ JAMES H. ROTH
James H. Roth
President and Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER,
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, John D. Kelly, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Huron Consulting Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: 5/1/2017

By: /S/ JOHN D. KELLY
John D. Kelly
Executive Vice President,
Chief Financial Officer and Treasurer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER,
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Huron Consulting Group Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James H. Roth, President and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: 5/1/2017

By: /s/ JAMES H. ROTH
James H. Roth
President and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER,
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Huron Consulting Group Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John D. Kelly, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: 5/1/2017

By: /s/ JOHN D. KELLY
John D. Kelly
Executive Vice President,
Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Form 10-Q and shall not be considered filed as part of the Form 10-Q.