

Huron Consulting Group Inc.  
Form 10-K  
February 27, 2019  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

Commission file number: 000-50976

HURON CONSULTING GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware 01-0666114

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

550 West Van Buren Street

Chicago, Illinois 60607

(Address of principal executive offices and zip code)

(312) 583-8700

(Registrant's telephone number, including area code)

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

| Title of each class | Name of each exchange on which registered |
|---------------------|---|
|---------------------|---|

|  |                             |
|--|-----------------------------|
| Common Stock, par value \$0.01 per share | NASDAQ Global Select Market |
|--|-----------------------------|

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company

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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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$897,200,000. As of February 19, 2019, 22,556,247 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

Documents Incorporated By Reference

Portions of the registrant's definitive Proxy Statement to be filed with Securities and Exchange Commission within 120 days after the end of its fiscal year are incorporated by reference into Part III.

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HURON CONSULTING GROUP INC.  
 ANNUAL REPORT ON FORM 10-K  
 FOR FISCAL YEAR ENDED DECEMBER 31, 2018

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**FORWARD-LOOKING STATEMENTS**

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

Statements in this Annual Report on Form 10-K 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,” “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," 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.

**PART I**

**ITEM 1. BUSINESS.**

**OVERVIEW**

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

We are headquartered in Chicago, Illinois, with additional locations in the United States in California, Colorado, the District of Columbia, Florida, Massachusetts, Michigan, New York, Oregon, Texas, and Wisconsin and abroad in Canada, India, Singapore, Switzerland, and the United Kingdom.

**OUR SERVICES**

We provide professional services through three operating segments: Healthcare, Business Advisory, and Education. For the year ended December 31, 2018, we derived 46%, 30%, and 24% of our revenues from Healthcare, Business Advisory, and Education, respectively.

**Healthcare**

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

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

and optimizing technology investments to collect data that transforms care delivery and improves patient outcomes. We also develop future leaders capable of driving meaningful operational and organizational change and who transform the consumer experience.

**Business Advisory**

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

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

### Education

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

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

### OUR CLIENTS AND INDUSTRIES

We provide professional services to a wide variety of both financially sound and distressed organizations, including healthcare organizations, leading academic and research institutions, large and mid-sized companies, and governmental entities. In 2018, we served over 1,200 clients, including over 250 new clients.

Our clients are in a broad array of industries, including healthcare, education, pharmaceutical, biotech and medical device, financial services, energy, oil and gas, technology, media and telecommunications, manufacturing, retail and consumer products, automotive, hospitality, governmental, metals and mining, and aerospace.

### EMPLOYEES

Our success depends on our ability to attract, engage, develop and retain highly talented professionals. We know that by creating a work environment where employees can shape their futures, and individuals are rewarded not only for their own contributions, but also for the success of our organization, we can accomplish these goals. We are focused on advancing every facet of the employee experience, beginning with the recruiting process through post-employment or retirement. We want to create a personalized experience for our people, where they are empowered, and can make an impact. We have developed comprehensive programs incorporating learning opportunities, beginning with the onboarding process and continuing throughout one's career. We provide a competitive total rewards package including benefits that are tailored to the unique needs of our employees. Our commitment to corporate social responsibility is facilitated through our Huron Helping Hands program and the Diversity and Inclusion council.

Our employee population is divided into two groups: client-serving and support professionals. As of December 31, 2018, we had 3,269 full-time employees, including 147 client-serving managing directors. Our client-serving employees serve as critical business advisors; collaborating with clients to help solve their most complex business problems. Our managing directors are the key drivers of growth in our business, generating new revenue streams from existing and new clients. They enhance our market reputation by partnering with clients as advisors and engagement team leaders. Internally, they create our intellectual capital, develop our people, and are stewards of our culture. Our senior directors, directors, and managers manage day-to-day client relationships, develop our people, nurture our culture, and oversee the delivery and quality of our work product. Our associates and analysts gather and organize data, conduct detailed analyses, and prepare presentations that synthesize and distill information to support

recommendations we deliver to clients. Our support professionals include our senior management team as well as those who provide sales support, methodology creation, software development, and corporate functions consisting of our facilities, finance and accounting, human resources, information technology, legal, and marketing teams. These employees provide strategic direction and support that enables the success of our client-serving employees. At December 31, 2018, our support professionals team was led by 22 managing directors, executives and corporate vice presidents.

In addition to our full-time client-serving employees, we engage temporary employees on an as-needed basis to provide unique skill sets that are not required to be staffed on a full-time basis.

Supporting our professionals' career advancement is critical to our employee retention and engagement. As part of our onboarding process, our employee experience team facilitates a robust and structured learning curriculum for newly hired employees to develop and onboard

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them more effectively into the company. Leadership development programs are offered to recently promoted employees to support their transition to and success in a new role with broader responsibility. In addition to these milestone programs, we offer a variety of leadership development opportunities for those who exhibit the capability and the desire to take on broader roles in the organization. We also provide a variety of continuing education opportunities to our employees, through online and classroom environments, to further develop employees' capabilities, including technical knowledge, people skills, team dynamics and coaching and developing others. We encourage our employees to enhance their professional skills through external learning opportunities that certify their technical skills and to pursue certain advanced degrees. Employees are matched with internal performance coaches and mentors to help them grow in their careers, including identifying opportunities for professional development, formal training, and technical skill certifications.

Our total rewards philosophy focuses on rewarding and retaining our high performing employees. To accomplish this, we offer employees a competitive base salary, performance incentives and benefits.

Our incentive compensation plan is designed to recognize and reward performance of both the organization and individuals and to ensure we retain our top performers. We take both practice and company financial performance into consideration in the determination of bonus pool funding. At the practice level, the annual bonus pool is funded based on achievement of its annual financial goals. The board of directors reviews and approves the total incentive compensation pool for all practices in the context of the company's overall financial performance. Individual bonus awards are based on the practice's financial performance, individual bonus targets, and the individual's performance as evaluated through our performance management process. The intent of the incentive compensation plan is to differentiate rewards based on individual performance, ensuring that our top performers for the year receive incentives that are commensurate with their contributions, which enables Huron to retain them and continue to provide our clients with exceptional service. The incentive compensation plan for our named executive officers is funded based on a blend of achievement of financial goals and strategic initiatives.

Managing directors' individual compensation levels, including base salary and target incentive awards, are set to align with the value of their expected contributions to the organization, including collaboration across practices. As the key drivers of the organization's success, their compensation is designed to include equity awards as a core component. The use of equity is intended to encourage retention, align the interests of our managing directors with shareholders, and help build wealth over a managing director's career at Huron through annual grants as well as stock price appreciation.

Our benefit programs are designed to be both comprehensive, competitive and personalized to the needs of our employees, such as a paid time off program that allows for flexibility and a travel reward program which recognizes the significant travel commitment of our client-serving workforce. We provide opportunities that allow employees to focus and care for their personal well-being that are aimed at providing tools and resources to focus on their physical, financial, social, and emotional health given the demanding nature of their work. In addition, our health and welfare plans, retirement benefits, and stock purchase plan, provide a core sense of security to our employees and their families.

Our corporate social responsibility efforts are designed to support an individual's charitable interests while also providing a venue for our employees to come together to make an impact in the communities in which we live and work. In addition, the Diversity and Inclusion council supports the needs of our growing employee population through employee resource groups that provide corporate-wide educational opportunities, build awareness, celebrate our differences, develop mentoring relationships, and ensure we are fostering a welcoming and engaging environment for all employees.

### **BUSINESS DEVELOPMENT AND MARKETING**

Our business development and marketing activities are aimed at cultivating relationships, generating leads, and building a strong brand reputation with hospital, health system, and university administrators; offices of the C-suite; and senior level influencers and decision makers of middle market and large corporate organizations. We believe excellent service delivery to clients is critical to building and maintaining relationships and our brand reputation, and we emphasize the importance of client service to all of our employees.

Currently, we generate new business opportunities through the combination of relationships our managing directors have with individuals working in healthcare organizations, academic and research institutions, and corporations, and marketing lead generation activities. We also view market-based collaboration between our managing directors as a key component in building our business. Often, the client relationship of a managing director in one area of our business leads to opportunities in another area. All of our managing directors understand their roles in ongoing relationship and business development, which is reinforced through our compensation and incentive programs. We actively seek to identify new business opportunities and frequently receive referrals and repeat business from past and current clients. In addition, to complement the business development efforts of our managing directors, we have dedicated business development professionals who are focused exclusively on developing client relationships and generating new business.

#### COMPETITION

The professional services industry is extremely competitive, highly fragmented, and constantly evolving. The industry includes a large number of participants with a variety of skills and industry expertise, including other strategy, business operations, technology, and financial consulting firms; general management consulting firms; the consulting practices of major accounting firms; technical and economic advisory

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firms; regional and specialty consulting firms; and the internal professional resources of organizations. We compete with a large number of service and technology providers in all of our segments. Our competitors vary, depending on the particular practice area, and we expect to continue to face competition from new market entrants.

We believe the principal competitive factors in our market include reputation, the ability to attract and retain top talent, the capacity to manage engagements effectively to drive high value to clients, and the ability to deliver measurable and sustainable results. There is also competition on price, although to a lesser extent due to the criticality of the issues that many of our services address. Some competitors have a greater geographic footprint, broader international presence, and more resources than we do, but we believe our reputation and ability to deliver high-value, quality service and measurable results to our clients across a balanced portfolio of services and attract and retain employees with broad capabilities and deep industry expertise enable us to compete favorably in the professional services marketplace.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission (the "SEC"). These filings are available on the SEC's website at <http://www.sec.gov>.

Our principal Internet address is [www.huronconsultinggroup.com](http://www.huronconsultinggroup.com). We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 available through our website, free of charge, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

We provide information about our business and financial performance, including our corporate profile, on our Investor Relations website. Additionally, we webcast our earnings calls and certain events we participate in with members of the investment community on our Investor Relations website. Further corporate governance information, including our code of ethics, code of business conduct, corporate governance guidelines, and board committee charters, is also available on our Investor Relations website. The content of our websites is not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS.

The following discussion of risk factors may be important to understanding the statements in this Annual Report on Form 10-K or elsewhere. The following information should be read in conjunction with Part II—Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes in this Annual Report on Form 10-K. Discussions about the important operational risks that our business encounters can be found in Part II—Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

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

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

Our business involves the delivery of professional services and is highly labor-intensive. Our success depends largely on our general ability to attract, develop, motivate, and retain highly skilled professionals. Further, we must successfully maintain the right mix of professionals with relevant experience and skill sets as we continue to grow, as we expand into new service offerings, and as the market evolves. The loss of a significant number of our professionals, the inability to attract, hire, develop, train, and retain additional skilled personnel, or failure to maintain the right mix of professionals could have a serious negative effect on us, including our ability to manage, staff, and successfully

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complete our existing engagements and obtain new engagements. Qualified professionals are in great demand, and we face significant competition for both senior and junior professionals with the requisite credentials and experience. Our principal competition for talent comes from other consulting firms and accounting firms, as well as from organizations seeking to staff their internal professional positions. Many of these competitors may be able to offer significantly greater compensation and benefits or more attractive lifestyle choices, career paths, or geographic locations than we do. Therefore, we may not be successful in attracting and retaining the skilled consultants we require to conduct and expand our operations successfully. Increasing competition for these revenue-generating professionals may also significantly increase our labor costs, which could negatively affect our margins and results of operations. Additional hiring, departures, business acquisitions and dispositions could disrupt our operations, increase our costs or otherwise harm our business.

Our business strategy is dependent in part upon our ability to grow by hiring individuals or groups of individuals and by acquiring complementary businesses. However, we may be unable to identify, hire, acquire, or successfully integrate new employees and acquired businesses without substantial expense, delay, or other operational or financial obstacles. From time to time, we will evaluate the total mix of services we provide and we may conclude that businesses may not achieve the results we previously expected. Competition for future hiring and acquisition opportunities in our markets could increase the compensation we offer to potential employees or the prices we pay for businesses we wish to acquire. In addition, we may be unable to achieve the financial, operational, and other benefits we anticipate from any hiring or acquisition, as well as any disposition, including those we have completed so far. New acquisitions could also negatively impact existing practices and cause current employees to depart. Hiring additional employees or acquiring businesses could also involve a number of additional risks, including:

- the diversion of management’s time, attention, and resources from managing and marketing our Company;
- the failure to retain key acquired personnel or existing personnel who may view the acquisition unfavorably;
- the potential loss of clients of acquired businesses;
- the need to compensate new employees while they wait for their restrictive covenants with other institutions to expire;
- the potential need to raise significant amounts of capital to finance a transaction or the potential issuance of equity securities that could be dilutive to our existing stockholders;
- increased costs to improve, coordinate, or integrate managerial, operational, financial, and administrative systems;
- the potential assumption of liabilities of an acquired business;
- the inability to attain the expected synergies with an acquired business;
- the usage of earn-outs based on the future performance of our business acquisitions may deter the acquired company from fully integrating into our existing business;
- the perception of inequalities if different groups of employees are eligible for different benefits and incentives or are subject to different policies and programs; and
- difficulties in integrating diverse backgrounds and experiences of consultants, including if we experience a transition period for newly hired consultants that results in a temporary drop in our utilization rates or margins.

All of our acquisitions have been accounted for as purchases, some of which involved purchase prices well in excess of tangible asset values, resulting in the creation of a significant amount of goodwill and other intangible assets. Under generally accepted accounting principles, we do not amortize goodwill or intangible assets acquired in a business combination that are determined to have indefinite useful lives, but instead review them annually (or more frequently if impairment indicators arise) for impairment. To the extent that we determine that such an asset has been impaired, we will write down its carrying value on our balance sheet and book a non-cash impairment charge in our statement of earnings. If, as a result of acquisitions or otherwise, the amount of intangible assets being amortized increases, so will our amortization charges in future periods.

Also, selling practices and shutting down operations present similar challenges in a service business. Dispositions not only require management’s time, but they can impair existing relationships with clients or otherwise affect client satisfaction, particularly in situations where the divestiture eliminates only part of the complement of consulting services provided to a client. Dispositions may also involve continued financial involvement, as we may be required to

retain responsibility for, or agree to indemnify buyers against, liabilities related to a business sold. For example, in connection with the sale of our Huron Legal segment to Consilio, Inc., which was completed on December 31, 2015, we have contractually agreed to indemnify the buyer against certain liabilities. If we fail to successfully address these risks, our ability to compete may be impaired and our results of operations may be adversely affected.

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Our goodwill and other intangible assets represent a substantial amount of our total assets, and we may be required to recognize a non-cash impairment charge for these assets if the performance of one or more of our reporting units falls below our expectations.

Our total assets reflect a substantial amount of intangible assets, primarily goodwill. At December 31, 2018, goodwill and other intangible assets totaled \$693.1 million, or 66%, of our total assets. Goodwill results from our acquisitions, representing the excess of the fair value of consideration transferred over the fair value of the net assets acquired. We test goodwill for impairment at the reporting unit level, annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. Intangible assets other than goodwill represent purchased assets that lack physical substance but can be distinguished from goodwill. Our intangible assets primarily consist of customer relationships, trade names, customer contracts, technology and software, non-competition agreements, and publishing content, all of which were acquired through business combinations. We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. No impairment charges for intangible assets were recorded in 2017 and 2018.

During the year ended 2018, we did not record any non-cash goodwill impairment charges. Pursuant to our policy, we performed our annual goodwill impairment test as of November 30, 2018 for our five reporting units with goodwill balances: Healthcare, Education, Business Advisory, Strategy and Innovation, and Life Sciences. We performed a qualitative assessment over all reporting units to determine if it was more likely than not the respective fair values of these reporting units were less than their carrying amounts, including goodwill.

For our qualitative assessment, we considered the most recent quantitative analysis performed for each reporting unit, which was as of November 30, 2017, including the key assumptions used within that analysis, the indicated fair values, and the amount by which those fair values exceeded their carrying amounts. One of the key assumptions used within the prior quantitative analysis was our internal financial projections; therefore, we considered the actual performance of each reporting unit during 2018 compared to the internal financial projections used, as well as specific outlooks for each reporting unit based on our most recent internal financial projections. We also considered the market-based valuation multiples used in the market approach within our prior quantitative analysis, which were derived from guideline companies, and noted that the valuation multiples generally increased over the past year. We also reviewed the current carrying value of each reporting unit in comparison to the carrying values as of the prior quantitative analysis. In addition, we considered various factors, including macroeconomic conditions, relevant industry and market trends for each reporting unit, and other entity-specific events, that could indicate a potential change in the fair value of our reporting units or the composition of their carrying values. Based on our assessments, we determined that it was more likely than not that the fair values for each of our reporting units exceeded their respective carrying amounts. As such, the goodwill for our reporting units was not considered impaired as of November 30, 2018, and a quantitative goodwill impairment analysis was not necessary. Further, we evaluated whether any events have occurred or any circumstances have changed since November 30, 2018 that would indicate goodwill may have become impaired since our annual impairment test. Based on our evaluation as of December 31, 2018, we determined that no indications of impairment have arisen since our annual goodwill impairment test.

Determining the fair value of a reporting unit requires us to make significant judgments, estimates, and assumptions. While we believe that the estimates and assumptions underlying our valuation methodology are reasonable, these estimates and assumptions could have a significant impact on whether or not a non-cash goodwill impairment charge is recognized and also the magnitude of any such charge. The results of an impairment analysis are as of a point in time. There is no assurance that the actual future earnings or cash flows of our reporting units will be consistent with our projections. We will monitor any changes to our assumptions and will evaluate goodwill as deemed warranted during future periods. Any significant decline in our operations could result in additional non-cash goodwill impairment charges.

During 2017, we recorded \$253.1 million of non-cash goodwill impairment charges. Of the \$253.1 million, \$208.1 million related to our Healthcare reporting unit and \$45.0 million related to our Enterprise Solutions and Analytics reporting unit which is included in our Business Advisory segment.

Refer to “Critical Accounting Policies” within Part I - Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 4 “Goodwill and Intangible Assets” within the notes to our consolidated financial statements for further discussion of our business combinations, goodwill, intangible assets, and impairment tests performed in 2018 and 2017.

Changes in capital markets, legal or regulatory requirements, and general economic or other factors beyond our control could reduce demand for our services, in which case our revenues and profitability could decline.

A number of factors outside of our control affect demand for our services. These include:

- fluctuations in U.S. and global economies;
- the U.S. or global financial markets and the availability, costs, and terms of credit;
- changes in laws and regulations; and
- other economic factors and general business conditions.

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We are not able to predict the positive or negative effects that future events or changes to the U.S. or global economy, financial markets, or regulatory and business environment could have on our operations.

Changes in U.S. tax laws could have a material adverse effect on our business, cash flow, results of operations and financial condition.

We are subject to income and other taxes in the U.S. at the state and federal level and also in foreign jurisdictions. Changes in applicable U.S. state, federal or foreign tax laws and regulations, or their interpretation and application, could materially affect our tax expense and profitability.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (“2017 Tax Reform”), a tax reform bill which contains significant changes to corporate taxation, including a reduction in the current corporate federal income tax rate from 35% to 21%, additional limitations on the tax deductibility of interest, substantial changes to the taxation of foreign earnings, and modification or repeal of many business deductions and credits. The changes included in the 2017 Tax Reform are broad and complex. While our financial statements as of and for the year ended December 31, 2018 reflect the impact due to the 2017 Tax Reform, additional regulatory and interpretive guidance, as well as any statutory technical corrections that are subsequently enacted, may have a material adverse effect on our business, cash flow, results of operations, financial condition, as well as our effective income tax rate.

Future changes in tax laws, treaties or regulations, and their interpretation or enforcement, may be unpredictable, particularly as taxing jurisdictions face an increasing number of political, budgetary and other fiscal challenges. Tax rates in the jurisdictions in which we operate may change as a result of macroeconomic and other factors outside of our control, making it increasingly difficult for multinational corporations like ourselves to operate with certainty about taxation in many jurisdictions. As a result, we could be materially adversely affected by future changes in tax law or policy (or in their interpretation or enforcement) in the jurisdictions where we operate, including the United States, which could have a material adverse effect on our business, cash flow, results of operations, financial condition, as well as our effective income tax rate.

If we are unable to manage fluctuations in our business successfully, we may not be able to sustain profitability.

We have grown significantly since we commenced operations and have increased the number of our full-time professionals from 249 in 2002 to 3,269 as of December 31, 2018. Additionally, our considerable growth has placed demands on our management and our internal systems, procedures, and controls and will continue to do so in the near future. To successfully manage growth, we must periodically adjust and strengthen our operating, financial, accounting, and other systems, procedures, and controls, which could increase our costs and may adversely affect our gross profits and our ability to sustain profitability if we do not generate increased revenues to offset the costs. As a public company, our information and control systems must enable us to prepare accurate and timely financial information and other required disclosures. If we discover deficiencies in our existing information and control systems that impede our ability to satisfy our reporting requirements, we must successfully implement improvements to those systems in an efficient and timely manner.

Although we have generated positive earnings since we became a public company, we may not sustain profitability in the future. Additionally, the nature of our services and the general economic environment make it difficult to predict our future operating results. To sustain profitability, we must:

- attract, integrate, retain, and motivate highly qualified professionals;
- achieve and maintain adequate utilization and suitable billing rates for our revenue-generating professionals;
- expand our existing relationships with our clients and identify new clients in need of our services;
- successfully resell engagements and secure new engagements every year;
- maintain and enhance our brand recognition; and
- adapt quickly to meet changes in our markets, our business mix, the economic environment, the credit markets, and competitive developments.

Our financial results could suffer if we are unable to achieve or maintain adequate utilization and suitable billing rates for our consultants, or if we are unable to deliver our services due to natural disasters.

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

• the number and size of client engagements;

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

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our ability to transition our consultants efficiently from completed engagements to new engagements;  
the hiring of additional consultants because there is generally a transition period for new consultants that results in a temporary drop in our utilization rate;  
unanticipated changes in the scope of client engagements;  
our ability to forecast demand for our services and thereby maintain an appropriate level of consultants; and  
conditions affecting the industries in which we practice as well as general economic conditions.  
The billing rates of our consultants that we are able to charge are also affected by a number of factors, including:  
our clients' perception of our ability to add value through our services;  
the market demand for the services we provide;  
an increase in the number of engagements in the government sector, which are subject to federal contracting regulations;  
introduction of new services by us or our competitors;  
our competition and the pricing policies of our competitors; and  
current economic conditions.

If we are unable to achieve and maintain adequate overall utilization as well as maintain or increase the billing rates for our consultants, our financial results could materially suffer. In addition, our consultants oftentimes perform services at the physical locations of our clients. If there are natural disasters, disruptions to travel and transportation or problems with communications systems, our ability to perform services for, and interact with, our clients at their physical locations may be negatively impacted which could have an adverse effect on our business and results of operations.

Our quarterly results of operations have fluctuated in the past and may continue to fluctuate in the future as a result of certain factors, some of which may be outside of our control.

A key element of our strategy is to market our products and services directly to certain large organizations, such as health systems and acute care hospitals, and to increase the number of our products and services utilized by existing clients. The sales cycle for some of our products and services is often lengthy and may involve significant commitment of client personnel. As a consequence, the commencement date of a client engagement often cannot be accurately forecasted. As discussed below, certain of our client contracts contain terms that result in revenue that is deferred and cannot be recognized until the occurrence of certain events. As a result, the period of time between contract signing and recognition of associated revenue may be lengthy, and we are not able to predict with certainty the period in which revenue will be recognized.

Certain of our contracts provide that some portion or all of our fees are at risk if our services do not result in the achievement of certain performance targets.

To the extent that any revenue is contingent upon the achievement of a performance target, we recognize such revenue using the following steps: 1) estimate variable consideration using a probability-weighted assessment of the fees to be earned, 2) apply a constraint to the estimated variable consideration to limit the amount that could be reversed when the uncertainty is resolved, and 3) recognize revenue of estimated variable consideration, net of the constraint, based on work completed to-date versus our estimates of the total services to be provided under the engagement. This 3-step process requires us to make significant management judgments, estimates, and assumptions. While we believe that the estimates and assumptions we have used for revenue recognition are reasonable, subsequent changes could have a material impact to our future financial results.

Fee discounts, pressure to not increase or even decrease our rates, and less advantageous contract terms could result in the loss of clients, lower revenues and operating income, higher costs, and less profitable engagements. More discounts or write-offs than we expect in any period would have a negative impact on our results of operations.

Other fluctuations in our quarterly results of operations may be due to a number of other factors, some of which are not within our control, including:

the timing and volume of client invoices processed and payments received, which may affect the fees payable to us under certain of our engagements;  
client decisions regarding renewal or termination of their contracts;



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the amount and timing of costs related to the development or acquisition of technologies or businesses; and unforeseen legal expenses, including litigation and other settlement gains or losses.

We base our annual employee bonus expense upon our expected annual adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) for that year. If we experience lower adjusted EBITDA in a quarter without a corresponding change to our full-year adjusted EBITDA expectation, our estimated bonus expense will not be reduced, which will have a negative impact on our quarterly results of operations for that quarter. Our quarterly results of operations may vary significantly and period-to-period comparisons of our results of operations may not be meaningful. The results of one quarter should not be relied upon as an indication of future performance. If our quarterly results of operations fall below the expectations of securities analysts or investors, the price of our common stock could decline substantially.

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

We have engagement agreements under which our fees include a significant performance-based component. Performance-based fees are contingent on the achievement of specific measures, such as our clients meeting cost-saving or other contractually-defined goals. The achievement of these contractually-defined goals may be subject to acknowledgment by the client and is often impacted by factors outside of our control, such as the actions of the client or other third parties. To the extent that any revenue is contingent upon the achievement of a performance target, we recognize such revenue using the following steps: 1) estimate variable consideration using a probability-weighted assessment of the fees to be earned, 2) apply a constraint to the estimated variable consideration to limit the amount that could be reversed when the uncertainty is resolved, and 3) recognize revenue of estimated variable consideration, net of the constraint, based on work completed to-date versus our estimates of the total services to be provided under the engagement. This 3-step process requires us to make significant management judgments, estimates, and assumptions. While we believe that the estimates and assumptions we have used for revenue recognition are reasonable, subsequent changes could have a material impact to our future financial results. The percentage of our revenues derived from performance-based fees for the years ended December 31, 2018, 2017, and 2016, was 6.1%, 4.9%, and 8.9%, respectively. A greater number of performance-based fee arrangements may result in increased volatility in our working capital requirements and greater variations in our quarter-to-quarter results, which could affect the price of our common stock. In addition, an increase in the proportion of performance-based fee arrangements may temporarily offset the positive effect on our operating results from an increase in our utilization rate until the related revenues are recognized.

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

When making proposals for fixed-fee engagements, we estimate the costs and timing for completing the engagements. These estimates reflect our best judgment regarding the efficiencies of our methodologies and consultants as we plan to deploy them on engagements. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed-fee engagements, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable, which would have an adverse effect on our profit margin. For the years ended December 31, 2018, 2017, and 2016, fixed-fee engagements represented 47.4%, 46.7%, and 47.4% of our revenues, respectively.

Our business is becoming increasingly dependent on information technology and will require additional investments in order to grow and meet the demands of our clients.

We depend on the use of sophisticated technologies and systems. Some of our practices provide services that are increasingly dependent on the use of software applications and systems that we do not own and could become unavailable. Moreover, our technology platforms will require continuing investments by us in order to expand existing service offerings and develop complementary services. Our future success depends on our ability to adapt our services and infrastructure while continuing to improve the performance, features, and reliability of our services in response to the evolving demands of the marketplace.

Adverse changes to our relationships with key third-party vendors, or in the business of our key third-party vendors, could unfavorably impact our business.

A portion of our services and solutions depend on technology or software provided by third-party vendors. Some of these third-party vendors refer potential clients to us, and others require that we obtain their permission prior to accessing their software while performing services for our clients. These third-party vendors could terminate their relationship with us without cause and with little or no notice, which could limit our service offerings and harm our financial condition and operating results. In addition, if a third-party vendor's business changes or is reduced, that could adversely affect our business. Moreover, if third-party technology or software that is important to our business does not continue to be available or utilized within the marketplace, or if the services that we provide to clients is no longer relevant in the marketplace, our business may be unfavorably impacted.

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We could experience system failures, service interruptions, or security breaches that could negatively impact our business.

Our organization is comprised of employees who work on matters throughout the United States and overseas. Our technology platform is a “virtual office” from which we all operate. We may be subject to disruption to our operating systems from technology events that are beyond our control, including the possibility of failures at third-party data centers, disruptions to the Internet, natural disasters, power losses, and malicious attacks. In addition, despite the implementation of security measures, our infrastructure and operating systems, including the Internet and related systems, may be vulnerable to physical break-ins, hackers, improper employee or contractor access, computer viruses, programming errors, denial-of-service attacks, or other attacks by third parties seeking to disrupt operations or misappropriate information or similar physical or electronic breaches of security. While we have taken and are taking reasonable steps to prevent and mitigate the damage of such events, including implementation of system security measures, information backup, and disaster recovery processes, those steps may not be effective and there can be no assurance that any such steps can be effective against all possible risks. We will need to continue to invest in technology in order to achieve redundancies necessary to prevent service interruptions. Access to our systems as a result of a security breach, the failure of our systems, or the loss of data could result in legal claims or proceedings, liability, or regulatory penalties and disrupt operations, which could adversely affect our business and financial results.

Our reputation could be damaged and we could incur additional liabilities if we fail to protect client and employee data through our own accord or if our information systems are breached.

We rely on information technology systems to process, transmit, and store electronic information and to communicate among our locations around the world and with our clients, partners, and employees. These locations include Canada, the United Kingdom, Switzerland, Singapore, and India, all of which have their own either recently updated or potential new data protection laws. The breadth and complexity of this infrastructure increases the potential risk of security breaches which could lead to potential unauthorized disclosure of confidential information.

In providing services to clients, we may manage, utilize, and store sensitive or confidential client or employee data, including personal data and protected health information. As a result, we are subject to numerous laws and regulations designed to protect this information, such as the U.S. federal and state laws governing the protection of health or other personally identifiable information, including the Health Insurance Portability and Accountability Act (HIPAA), and international laws such as the European Union's General Data Protection Regulation (GDPR), which became enforceable in 2018. In addition, many states, U.S. federal governmental authorities and non-U.S. jurisdictions have adopted, proposed or are considering adopting or proposing, additional data security and/or data privacy statutes or regulations. Continued governmental focus on data security and privacy may lead to additional legislative and regulatory action, which could increase the complexity of doing business. The increased emphasis on information security and the requirements to comply with applicable U.S. and foreign data security and privacy laws and regulations may increase our costs of doing business and negatively impact our results of operations.

These laws and regulations are increasing in complexity and number. If any person, including any of our employees or third-party vendors, negligently disregards or intentionally breaches our established controls or contractual obligations with respect to client or employee data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines, and/or criminal prosecution. We maintain certain insurance coverages for cybersecurity incidents through our directors and officers insurance policy, in amounts we believe to be reasonable and at a cost that is included in our general insurance premiums.

In addition, unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud, or misappropriation, could damage our reputation and cause us to lose clients and their related revenue in the future.

Our international expansion could result in additional risks.

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

business or our results of operations, including:

- compliance with additional U.S. regulations and those of other nations applicable to international operations;
- cultural and language differences;
- employment laws and rules and related social and cultural factors;
- losses related to start-up costs, lack of revenue, higher costs due to low utilization, and delays in purchase decisions by prospective clients;
- currency fluctuations between the U.S. dollar and foreign currencies, which are harder to predict in the current adverse global economic climate;
- restrictions on the repatriation of earnings;

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potentially adverse tax consequences and limitations on our ability to utilize losses generated in our foreign operations;

different regulatory requirements and other barriers to conducting business;

different or less stable political and economic environments;

greater personal security risks for employees traveling to or located in unstable locations; and

civil disturbances or other catastrophic events.

Further, conducting business abroad subjects us to increased regulatory compliance and oversight. For example, in connection with our international operations, we are subject to laws prohibiting certain payments to governmental officials, such as the Foreign Corrupt Practices Act. A failure to comply with applicable regulations could result in regulatory enforcement actions as well as substantial civil and criminal penalties assessed against us and our employees.

Our obligations under the Amended Credit Agreement are secured by a pledge of certain of the equity interests in our subsidiaries and a lien on substantially all of our assets and those of our subsidiary grantors. If we default on these obligations, our lenders may foreclose on our assets, including our pledged equity interest in our subsidiaries.

We entered into a second amended and restated security agreement with Bank of America (the "Security Agreement") and a second amended and restated pledge agreement (the "Pledge Agreement") in connection with our entry into the Second Amended and Restated Credit Agreement, dated as of March 31, 2015 (as amended and restated, the "Amended Credit Agreement"). Pursuant to the Security Agreement and to secure our obligations under the Amended Credit Agreement, we granted our lenders a first-priority lien, subject to permitted liens, on substantially all of the personal property assets that we and the subsidiary grantors own. Pursuant to the Pledge Agreement, we granted our lenders a security interest in 100% of the voting stock or other equity interests in our domestic subsidiaries and 65% of the voting stock or other equity interests in certain of our foreign subsidiaries. If we default on our obligations under the Amended Credit Agreement, our lenders could accelerate our indebtedness and may be able to exercise their liens on the equity interests subject to the Pledge Agreement and their liens on substantially all of our assets and the assets of our subsidiary grantors, which would have a material adverse effect on our business, operations, financial condition, and liquidity. In addition, the covenants contained in the Amended Credit Agreement impose restrictions on our ability to engage in certain activities, such as the incurrence of additional indebtedness, certain investments, certain acquisitions and dispositions, and the payment of dividends.

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

At December 31, 2018, we had outstanding indebtedness of \$250 million principal amount of our 1.25% convertible senior notes due October 1, 2019, \$50.0 million on our revolving line of credit that becomes due and payable in full upon maturity on March 23, 2023, and \$4.4 million principal amount of our promissory note due March 1, 2024. Our ability to make scheduled payments of the principal, to pay interest, to make payments upon conversion, or to refinance our indebtedness, depends on our future performance. Our business may not continue to generate cash flow from operations in the future sufficient to satisfy our obligations under our current indebtedness and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing, or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our current indebtedness or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the current indebtedness or future indebtedness.

In addition, our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

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

make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry, and competitive conditions and adverse changes in government regulation;

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limit our ability to obtain additional financing and flexibility in planning for, or reacting to, changes in our business and our industry;  
place us at a disadvantage compared to our competitors who have less debt or have better access to capital resources;  
and  
require us to dedicate a larger portion of our cash from operations to service our indebtedness and thus reduce the level of cash for other purposes such as funding working capital, strategic acquisitions, capital expenditures, and other general corporate purposes.

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Any of these factors could materially and adversely affect our business, financial condition, and results of operations. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

The accounting method for convertible debt securities that may be settled in cash, such as our convertible notes, could have a material effect on our reported financial results.

Under GAAP, an entity must separately account for the debt component and the embedded conversion option of convertible debt instruments that may be settled entirely or partially in cash upon conversion, such as our convertible notes, in a manner that reflects a company's economic interest cost. The effect of the accounting treatment for such instruments is that the value of such embedded conversion option would be treated as an original issue discount for purposes of accounting for the debt component of the notes and that original issue discount is amortized into interest expense over the term of the notes using an effective yield method. As a result, over the term of our convertible notes, we will initially be required to record a greater amount of non-cash interest expense. Accordingly, we will report lower net income in our financial results because of the recognition of both the current period's amortization of the debt discount and our convertible notes' coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock, and the trading price of our convertible notes.

Under certain circumstances, the shares of common stock underlying convertible debt instruments (such as our convertible notes) that may be settled entirely or partially in cash are reflected in earnings per share utilizing the treasury stock method, the effect of which is that such shares of common stock are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the notes exceeds their principal amount at the end of the reporting period. Under the treasury stock method, for diluted earnings per share purposes, our convertible notes are accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares of common stock, are issued. The accounting standards in the future may not continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares of common stock issuable upon conversion of our convertible notes, then our diluted earnings per share could be adversely affected.

We may not have the ability to raise the funds necessary to pay the amount of cash due upon conversion of our convertible notes, if relevant, or the fundamental change repurchase price due when a holder submits its convertible notes for repurchase upon the occurrence of a fundamental change, and our debt may contain limitations on our ability to pay cash upon conversion or required repurchase of our convertible notes.

Upon the occurrence of a fundamental change as defined in the indenture governing our convertible notes, holders of our convertible notes may require us to repurchase, for cash, all or a portion of their convertible notes at a repurchase price equal to 100% of their principal amount, plus accrued and unpaid interest, if any. In addition, upon conversion of our convertible notes, we will be required to make cash payments in respect of our convertible notes being converted, including if the conditional conversion feature of our convertible notes is triggered, unless we elect to deliver solely shares of our common stock to settle such conversion.

We may not have sufficient financial resources, or may be unable to arrange financing, to pay the fundamental change repurchase price if holders of our convertible notes submit their convertible notes for purchase by us upon the occurrence of a fundamental change or to pay the amount of cash (if any) due if holders of our convertible notes surrender their convertible notes for conversion. In addition, the occurrence of a fundamental change may cause an event of default under agreements governing our or our subsidiaries' indebtedness. Agreements governing any of our future debt may restrict our ability to make each of the required cash payments even if we have sufficient funds to make them. Furthermore, our ability to purchase our convertible notes or to pay cash (if any) due upon the conversion of our convertible notes may be limited by law or regulatory authorities. In addition, if we fail to repurchase our convertible notes or to pay the amount of cash (if any) due upon conversion of our convertible notes, we will be in default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our other indebtedness, which in turn may result in the acceleration of such other indebtedness we may then have outstanding. If the repayment of the other indebtedness were to be accelerated, we may not have sufficient funds to repay that indebtedness and to repurchase our convertible notes or to pay the amount

of cash (if any) due upon conversion.

The fundamental change provisions associated with our convertible notes may delay or prevent an otherwise beneficial takeover attempt of us.

The fundamental change purchase rights, which will allow holders of our convertible notes to require us to repurchase all or a portion of their convertible notes upon the occurrence of a fundamental change, and the provisions requiring an increase to the conversion rate for conversions in connection with certain other circumstances may delay or prevent a takeover of us that might otherwise be beneficial to investors.

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The convertible note hedge transactions and the warrant transactions may affect the value of our convertible notes and our common stock.

In connection with the pricing of our convertible notes, we entered into privately negotiated convertible note hedge transactions with affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities as hedge counterparties. The convertible note hedge transactions collectively cover, subject to customary anti-dilution adjustments, the number of shares of common stock that initially underlie our convertible notes. We also entered into separate privately negotiated warrant transactions with the hedge counterparties relating to the same number of shares of our common stock, subject to customary anti-dilution adjustments.

We expect that the hedge counterparties and/or their affiliates may modify their hedge positions with respect to the convertible note hedge transactions and the warrant transactions from time to time by purchasing and/or selling shares of our common stock and/or our convertible notes in privately negotiated transactions and/or open market transactions or by entering into and/or unwinding various over-the-counter derivative transactions with respect to our common stock. This activity could also cause or prevent an increase or decrease in the market value of our common stock. In addition, the hedge counterparties and/or their affiliates may choose to engage in, or to discontinue engaging in, any of these transactions with or without notice at any time, and their decisions will be in their sole discretion and not within our control.

The hedge counterparties are financial institutions which will be subject to the risk that one or both of the hedge counterparties might default under their respective convertible note hedge transactions. Upon a default by any hedge counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the hedge counterparties. Our intellectual property rights in our “Huron Consulting Group” name are important, and any inability to use that name could negatively impact our ability to build brand identity.

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

Our business performance might not be sufficient for us to meet the full-year financial guidance that we provide publicly.

We provide full-year financial guidance to the public based upon our expectations regarding our financial performance. While we believe that our annual financial guidance provides investors and analysts with insight to our view of the Company’s future performance, such financial guidance is based on assumptions that may not always prove to be accurate and may vary from actual results. If we fail to meet the full-year financial guidance that we provide, or if we find it necessary to revise such guidance during the year, the market value of our common stock could be adversely affected.

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

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

- our inability to estimate demand for the new service offerings;
- competition from more established market participants;
- a lack of market understanding; and
- unanticipated expenses to recruit and hire qualified consultants and to market our new service offerings.

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

The healthcare industry is an area of significant focus for our business, and factors that adversely affect the financial condition of the healthcare industry could consequently affect our business.

We derive a significant portion of our revenue from clients in the healthcare industry. As a result, our financial condition and results of operations could be adversely affected by conditions affecting the healthcare industry generally and hospitals and health systems particularly. The healthcare industry is highly regulated and is subject to changing political, legislative, regulatory, and other influences. Uncertainty in any

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of these areas could cause our clients to delay or postpone decisions to use our services. Existing and new federal and state laws and regulations affecting the healthcare industry could create unexpected liabilities for us, could cause us or our clients to incur additional costs, and could restrict our or our clients' operations. Many healthcare laws are complex and their application to us, our clients, or the specific services and relationships we have with our clients are not always clear. In addition, federal and state legislatures have periodically introduced programs to reform or amend the U.S. healthcare system at both the federal and state level, such as the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, and continue to consider further significant reforms. Due to the significant implementation issues arising under these laws and potential new legislation, it is unclear what long-term effects they will have on the healthcare industry and in turn on our business, financial condition, and results of operations. Our failure to accurately anticipate the application of new laws and regulations, or our failure to comply with such laws and regulations, could create liability for us, result in adverse publicity and negatively affect our business.

There are many factors that could affect the purchasing practices, operations, and, ultimately, the operating funds of healthcare organizations, such as reimbursement policies for healthcare expenses, federal and state budgetary considerations, consolidation in the healthcare industry, and regulation, litigation, and general economic conditions. In particular, we could be required to make unplanned modifications of our products and services (which would require additional time and investment) or we could suffer reductions in demand for our products and services as a result of changes in regulations affecting the healthcare industry, such as changes in the way that healthcare organizations are paid for their services (e.g., based on patient outcomes instead of services provided). Furthermore, as a result of the 2016 election and the new presidential administration, there is an increased uncertainty surrounding the future of the Affordable Care Act and the regulation of the healthcare industry, and therefore healthcare organizations may wait to buy services such as ours until the regulatory environment is more certain.

In addition, state tax authorities have challenged the tax-exempt status of some hospitals and other healthcare facilities claiming such status on the basis that they are operating as charitable and/or religious organizations. If the tax-exempt status of any of our clients is revoked or compromised by new legislation or interpretation of existing legislation, that client's financial health could be adversely affected, which could adversely impact demand for our services, our sales, revenue, financial condition, and results of operations.

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

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

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

As a consulting firm, we have derived, and expect to continue to derive, a significant portion of our revenues from a limited number of clients. Our 10 largest clients accounted for approximately 20.1%, 19.5%, and 28.8% of our revenues for the years ended December 31, 2018, 2017, and 2016, respectively. No single client accounted for more than 10% of our revenues in 2018, 2017, or 2016. Our clients typically retain us on an engagement-by-engagement basis, rather than under fixed-term contracts. The volume of work performed for any particular client is likely to vary from year to year, and a major client in one fiscal period may not require or may decide not to use our services in any subsequent fiscal period. Moreover, a large portion of our new engagements comes from existing clients. Accordingly, the failure to obtain new large engagements or multiple engagements from existing or new clients could have a

material adverse effect on the amount of revenues we generate.

In addition, almost all of our engagement agreements can be terminated by our clients with little or no notice and without penalty. In client engagements that involve multiple engagements or stages, there is a risk that a client may choose not to retain us for additional stages of an engagement or that a client will cancel or delay additional planned engagements. For clients in bankruptcy, a bankruptcy court could elect not to retain our interim management consultants, terminate our retention, require us to reduce our fees for the duration of an engagement, or elect not to approve claims against fees earned by us prior to or after the bankruptcy filing.

Terminations of engagements, cancellations of portions of the project plan, delays in the work schedule, or reductions in fees could result from factors unrelated to our services. When engagements are terminated or reduced, we lose the associated future revenues, and we may not be able to recover associated costs or redeploy the affected employees in a timely manner to minimize the negative impact. In addition, our clients' ability to terminate engagements with little or no notice and without penalty makes it difficult to predict our operating results in any particular fiscal period.

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Our engagements could result in professional liability, which could be very costly and hurt our reputation. Our engagements typically involve complex analyses and the exercise of professional judgment. As a result, we are subject to the risk of professional liability. From time to time, lawsuits with respect to our work are pending. Litigation alleging that we performed negligently or breached any other obligations could expose us to significant legal liabilities and, regardless of outcome, is often very costly, could distract our management, could damage our reputation, and could harm our financial condition and operating results. In addition, certain of our engagements, including interim management engagements and corporate restructurings, involve greater risks than other consulting engagements. We are not always able to include provisions in our engagement agreements that are designed to limit our exposure to legal claims relating to our services. While we attempt to identify and mitigate our exposure with respect to liability arising out of our consulting engagements, these efforts may be ineffective and an actual or alleged error or omission on our part or the part of our client or other third parties in one or more of our engagements could have an adverse impact on our financial condition and results of operations. In addition, we carry professional liability insurance to cover many of these types of claims, but the policy limits and the breadth of coverage may be inadequate to cover any particular claim or all claims plus the cost of legal defense. For example, we provide services on engagements in which the impact on a client may substantially exceed the limits of our errors and omissions insurance coverage. If we are found to have professional liability with respect to work performed on such an engagement, we may not have sufficient insurance to cover the entire liability.

The consulting services industry is highly competitive and we may not be able to compete effectively. The consulting services industry in which we operate includes a large number of participants and is intensely competitive. We face competition from other business operations and financial consulting firms, general management consulting firms, the consulting practices of major accounting firms, regional and specialty consulting firms, and the internal professional resources of organizations. In addition, because there are relatively low barriers to entry, we expect to continue to face additional competition from new entrants into the business operations and financial consulting industries. Competition in several of the sectors in which we operate is particularly intense as many of our competitors are seeking to expand their market share in these sectors. Many of our competitors have a greater national and international presence, as well as have a significantly greater number of personnel, financial, technical, and marketing resources. In addition, these competitors may generate greater revenues and have greater name recognition than we do. Some of our competitors may also have lower overhead and other costs and, therefore, may be able to more effectively compete through lower cost service offerings. Our ability to compete also depends in part on the ability of our competitors to hire, retain, and motivate skilled professionals, the price at which others offer comparable services, the ability of our competitors to offer new and valuable products and services to clients, and our competitors' responsiveness to their clients. If we are unable to compete successfully with our existing competitors or with any new competitors, our financial results will be adversely affected.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of December 31, 2018, our principal executive offices in Chicago, Illinois, consisted of approximately 134,000 square feet of office space, under a lease expiring September 2024. We have one five-year renewal option that will allow us to continue to occupy this office space until September 2029. This facility accommodates our executive team and corporate departments, as well as professionals in our practices. Additionally, we occupy leased facilities for our other domestic and international offices, including those located in the following cities: Boston, Massachusetts; Buffalo, New York; Dallas, Texas; Denver, Colorado; Detroit, Michigan; Houston, Texas; Madison, Wisconsin; New York City, New York; Pensacola, Florida; Portland, Oregon; San Francisco, California; Washington, D.C.; Bangalore, India; London, United Kingdom; Lausanne, Switzerland; Singapore; St. Ives, United Kingdom; and Toronto, Canada. We do not own any real property. We believe that our leased facilities are adequate to meet our current needs and that additional facilities are available for lease to meet future needs.

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ITEM 3. LEGAL PROCEEDINGS.

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 Annual Report on Form 10-K, 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 4. MINE SAFETY DISCLOSURES.

Not applicable.

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## PART II

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

## Market Information

Our common stock is traded on The NASDAQ Global Select Market under the symbol "HURN." As of February 19, 2019, there were 392 registered holders of record of Huron's common stock. A number of Huron's stockholders hold their shares in street name; therefore, the Company believes that there are substantially more beneficial owners of its common stock.

## Dividends

We have not declared or paid dividends on our common stock since we became a public company. Our board of directors re-evaluates this policy periodically. Any determination to pay cash dividends will be at the discretion of the board of directors and will be dependent upon our results of operations, financial condition, capital requirements, terms of our financing arrangements, and such other factors as the board of directors deems relevant. In addition, the amount of dividends we may pay is subject to the restricted payment provisions of our senior secured credit facility. See the Liquidity and Capital Resources section under Part II—Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information on the restricted payment provisions of our senior secured credit facility.

## Securities Authorized for Issuance Under Equity Compensation Plans

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

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

Our 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 December 31, 2018, we reacquired 1,857 shares of common stock with a weighted average fair market value of \$51.76 as a result of such tax withholdings.

We currently have a share repurchase program pursuant to which we may, from time to time, repurchase up to \$125 million of our common stock and which expires on October 31, 2019 (the "Share Repurchase Program"). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our line of credit, general market and business conditions, and applicable legal requirements.

The following table provides information with respect to purchases we made of our common stock during the fourth quarter of 2018.

| Period                               | Total Number of Shares Purchased <sup>(1)</sup> | 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 <sup>(2)</sup> |
|--------------------------------------|---|------------------------------|--|---|
| October 1, 2018 – October 31, 2018   | 60  | \$ 49.40                     | —  | \$ 35,143,546   |
| November 1, 2018 – November 30, 2018 | —   | \$ —                         | —  | \$ 35,143,546   |
| December 1, 2018 – December 31, 2018 | 1,797   | \$ 51.83                     | —  | \$ 35,143,546   |
| Total                                | 1,857   | \$ 51.76                     | —  |   |

(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.



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## ITEM 6. SELECTED FINANCIAL DATA.

We have derived the following selected consolidated financial data as of and for the years ended December 31, 2014 through 2018 from our consolidated financial statements. The following data reflects the business acquisitions that we have completed through December 31, 2018. The results of operations for acquired businesses have been included in our results of operations since the date of their acquisitions. See Note 3 "Acquisitions" within the notes to our consolidated financial statements for additional information regarding our acquisitions. The following data also reflects the classification of discontinued operations.

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere in this Annual Report on Form 10-K.

| Consolidated Statements of Operations<br>(in thousands, except per share data):  | Year Ended December 31, |             |           |           |           |
|--|-------------------------|-------------|-----------|-----------|-----------|
|  | 2018                    | 2017        | 2016      | 2015      | 2014      |
| Revenues and reimbursable expenses:  |                         |             |           |           |           |
| Revenues   | \$795,125               | \$732,570   | \$726,272 | \$699,010 | \$627,686 |
| Reimbursable expenses  | 82,874                  | 75,175      | 71,712    | 70,013    | 73,847    |
| Total revenues and reimbursable expenses   | 877,999                 | 807,745     | 797,984   | 769,023   | 701,533   |
| Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses) <sup>(1)</sup> : |                         |             |           |           |           |
| Direct costs   | 521,537                 | 454,806     | 437,556   | 401,915   | 384,277   |
| Amortization of intangible assets and software development costs   | 4,247                   | 10,932      | 15,140    | 16,788    | 4,590     |
| Reimbursable expenses  | 82,923                  | 75,436      | 71,749    | 69,932    | 73,855    |
| Total direct costs and reimbursable expenses   | 608,707                 | 541,174     | 524,445   | 488,635   | 462,722   |
| Operating expenses and other losses (gains), net:  |                         |             |           |           |           |
| Selling, general and administrative expenses   | 180,983                 | 175,364     | 160,204   | 157,902   | 132,799   |
| Restructuring charges  | 3,657                   | 6,246       | 9,592     | 3,329     | 2,811     |
| Other losses (gains), net  | (2,019)                 | 1,111       | (1,990)   | (9,476)   | (590)     |
| Depreciation and amortization <sup>(1)</sup>   | 34,575                  | 38,213      | 31,499    | 25,135    | 15,451    |
| Goodwill impairment charges  | —                       | 253,093     | —         | —         | —         |
| Total operating expenses and other losses (gains), net   | 217,196                 | 474,027     | 199,305   | 176,890   | 150,471   |
| Operating income (loss)  | 52,096                  | (207,456)   | 74,234    | 103,498   | 88,340    |
| Other income (expense), net:   |                         |             |           |           |           |
| Interest expense, net of interest income   | (19,013)                | (18,613)    | (16,274)  | (18,136)  | (8,679)   |
| Other income (expense), net  | (7,862)                 | 3,565       | 1,197     | (1,797)   | 400       |
| Total other expense, net   | (26,875)                | (15,048)    | (15,077)  | (19,933)  | (8,279)   |
| Income (loss) from continuing operations before taxes  | 25,221                  | (222,504)   | 59,157    | 83,565    | 80,061    |
| Income tax expense (benefit)   | 11,277                  | (51,999)    | 19,677    | 21,670    | 33,059    |
| Net income (loss) from continuing operations   | 13,944                  | (170,505)   | 39,480    | 61,895    | 47,002    |
| Income (loss) from discontinued operations, net of tax   | (298)                   | 388         | (1,863)   | (2,843)   | 32,049    |
| Net income (loss)  | \$13,646                | \$(170,117) | \$37,617  | \$59,052  | \$79,051  |

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| Consolidated Statements of Operations<br>(in thousands, except per share data): |  | Year Ended December 31, |             |             |             |             |
|---|--|-------------------------|-------------|-------------|-------------|-------------|
|   |  | 2018                    | 2017        | 2016        | 2015        | 2014        |
| Net earnings (loss) per basic share:  |  |                         |             |             |             |             |
| Net income (loss) from continuing operations                                    |  | \$0.64                  | \$(7.95)    | \$1.87      | \$2.80      | \$2.10      |
| Income (loss) from discontinued operations, net of tax                          |  | (0.01 )                 | 0.02        | (0.09 )     | (0.13 )     | 1.42        |
| Net income (loss)   |  | \$0.63                  | \$(7.93)    | \$1.78      | \$2.67      | \$3.52      |
| Net earnings (loss) per diluted share:  |  |                         |             |             |             |             |
| Net income (loss) from continuing operations                                    |  | \$0.63                  | \$(7.95)    | \$1.84      | \$2.74      | \$2.05      |
| Income (loss) from discontinued operations, net of tax                          |  | (0.01 )                 | 0.02        | (0.08 )     | (0.13 )     | 1.40        |
| Net income (loss)   |  | \$0.62                  | \$(7.93)    | \$1.76      | \$2.61      | \$3.45      |
| Weighted average shares used in calculating net earnings (loss) per share:      |  |                         |             |             |             |             |
| Basic   |  | 21,706                  | 21,439      | 21,084      | 22,136      | 22,431      |
| Diluted   |  | 22,058                  | 21,439      | 21,424      | 22,600      | 22,925      |
| Consolidated Balance Sheet Data<br>(in thousands):                              |  | As of December 31,      |             |             |             |             |
|   |  | 2018                    | 2017        | 2016        | 2015        | 2014        |
| Cash and cash equivalents   |  | \$33,107                | \$16,909    | \$17,027    | \$58,437    | \$256,872   |
| Working capital <sup>(2)</sup>  |  | \$(185,374 )            | \$51,828    | \$44,314    | \$96,966    | \$307,978   |
| Total assets  |  | \$1,049,532             | \$1,036,928 | \$1,153,215 | \$1,159,543 | \$1,148,475 |
| Long-term debt, net of current portion  |  | \$53,853                | \$342,507   | \$292,065   | \$307,376   | \$320,413   |
| Total stockholders' equity <sup>(3)</sup>                                       |  | \$540,624               | \$503,316   | \$648,033   | \$652,325   | \$600,634   |

- Intangible asset amortization relating to customer contracts, certain client relationships, and software and
- (1) amortization of software development costs are presented as a component of total direct costs. Depreciation and intangible assets amortization not classified as direct costs are presented as a component of operating expenses. Our Convertible Notes with a principal amount of \$250.0 million outstanding at December 31, 2018 will mature on October 1, 2019 and are classified as short-term debt on our consolidated balance sheet. We expect to refinance the outstanding notes at maturity with the borrowing capacity available under our revolving credit facility. Refer to the
- (2) "Liquidity and Capital Resources" section under Part II—Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 6 "Financing Arrangements" within the notes to our consolidated financial statements for more information on our outstanding borrowings.
- We have not declared or paid dividends on our common stock in the periods presented above. See Item 5. "Market
- (3) for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Dividends."

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the information under Part II—Item 6. "Selected Financial Data," and our Consolidated Financial Statements and related notes appearing under Part II—Item 8. "Financial Statements and Supplementary Data." The following MD&A contains forward-looking statements and involves numerous risks and uncertainties, including, without limitation, those described under Part I—Item 1A. "Risk Factors" and "Forward-Looking Statements" of this Annual Report on Form 10-K. Actual results may differ materially from those contained in any forward-looking statements.

OVERVIEW

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

We provide our services and manage our business under three operating segments: Healthcare, Business Advisory, and Education. See Part I—Item 1. "Business—Overview—Our Services" and Note 18 "Segment Information" within the notes to our consolidated financial statements for a discussion of our three segments.

How We Generate Revenues

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

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

We generate our revenues from providing professional services under four types of billing arrangements: fixed-fee (including software license revenue), time-and-expense, performance-based, and software support 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 include fixed-fee partner contracts with multiple performance obligations, which primarily consist of coaching services, as well as speaking engagements, conferences, publications, and software products ("Partner Contracts"). Revenues for coaching services and software products are generally recognized on a straight-line basis over the length of the contract. All other revenues under Partner Contracts, including speaking engagements, conferences, and publications, are recognized at the time the goods or services are provided.

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

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

Fixed-fee engagements represented 47.4%, 46.7%, and 47.4% of our revenues for the years ended December 31, 2018, 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 41.2%, 43.0%, and 38.7% of our revenues in 2018, 2017, and 2016, respectively.

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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. Effective January 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers, on a modified retrospective basis and began recognizing revenues under performance-based billing arrangements by estimating the amount of variable consideration that is probable of being earned and recognizing that estimate over the length of the contract using a proportionate performance approach. Prior to adopting ASC 606 in 2018, we recognized revenues under performance-based billing arrangements when all related performance criteria were met. Refer to Note 2 "Summary of Significant Accounting Policies" within the notes to the consolidated financial statements for additional information on our adoption of ASC 606. Performance-based fee revenues represented 6.1%, 4.9%, and 8.9% of our revenues in 2018, 2017, and 2016, respectively. The level of performance-based fees earned may vary based on our clients' risk sharing preferences and the mix of services we provide. Refer to our Segment Results discussed below for additional information on the impact of ASC 606 on our performance-based fee revenue.

Clients that have purchased one of our software licenses can pay an annual fee for software support and maintenance. We also generate subscription revenue from our cloud-based analytic tools and solutions. Software support, maintenance and subscription revenues are recognized ratably over the support or subscription period. These fees are billed in advance and included in deferred revenues until recognized. Software support and maintenance and subscription-based revenues represented 5.3%, 5.4%, and 5.0% of our revenues in 2018, 2017, and 2016, respectively. Our quarterly results are impacted principally by our full-time consultants' utilization rate, the billing rates we charge our clients, and the number of our revenue-generating professionals who are available to work. Our utilization rate can be negatively affected by increased hiring because there is generally a transition period for new professionals that results in a temporary drop in our utilization rate. Our utilization rate can also be affected by seasonal variations in the demand for our services from our clients. For example, during the third and fourth quarters of the year, vacations taken by our clients can result in the deferral of activity on existing and new engagements, which would negatively affect our utilization rate. The number of business work days is also affected by the number of vacation days taken by our consultants and holidays in each quarter. We typically have fewer business work days available in the fourth quarter of the year, which can impact revenues during that period.

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

**Reimbursable Expenses**

Reimbursable expenses that are billed to clients, primarily relating to travel and out-of-pocket expenses incurred in connection with engagements, are included in total revenues and reimbursable expenses. Under fixed-fee billing arrangements, we estimate the total amount of reimbursable expenses to be incurred over the course of the engagement and recognize the estimated amount as revenue using the proportionate performance approach, which is based on work completed to-date versus our estimates of the total services to be provided under the engagement. Under time-and-expense billing arrangements, we recognize reimbursable expenses as revenue as the related services are provided, using the right to invoice practical expedient. Reimbursable expenses are recognized as expenses in the period in which the expense is incurred. Subcontractors that are billed to clients at cost are also included in reimbursable expenses. When billings do not specifically identify reimbursable expenses, we allocate the portion of the billings equivalent to these expenses to reimbursable expenses.

We manage our business on the basis of revenues before reimbursable expenses, which we believe is the most accurate reflection of our services because it eliminates the effect of reimbursable expenses that we bill to our clients

at cost.

#### Total Direct Costs

Our most significant expenses are costs classified as total direct costs. These total direct costs primarily include salaries, performance bonuses, signing and retention bonuses, payroll taxes, and benefits for revenue-generating professionals, as well as commissions, technology costs, product and event costs, and fees paid to independent contractors that we retain to supplement our revenue-generating professionals, typically on an as-needed basis for specific client engagements. Direct costs also include share-based compensation, which represents the cost of restricted stock and performance-based share awards granted to our revenue-generating professionals. Compensation expense for restricted stock awards and performance-based share awards is recognized ratably using either the straight-line attribution method or the graded vesting attribution method, as appropriate, over the requisite service period, which is generally three to four years. Total direct costs also include amortization of intangible assets, primarily relating to customer contracts, certain customer relationships, and technology and software acquired in business combinations, and internally developed software costs.

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Operating Expenses and Other Losses (Gains), Net

Our operating expenses include selling, general and administrative expenses, which consist primarily of salaries, performance bonuses, payroll taxes, benefits, and share-based compensation for our support personnel. Also included in selling, general and administrative expenses is rent and other office related expenses, sales and marketing related expenses, professional fees, recruiting and training expenses, and practice administration and meetings expenses.

Other operating expenses include restructuring charges, other gains and losses, depreciation and certain amortization expenses not included in total direct costs.

Segment Results

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative expenses that are incurred directly by the segment. Unallocated costs include corporate costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include corporate office support costs, 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.

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## RESULTS OF OPERATIONS

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

|  | Year Ended December 31, |             |           |
|--|-------------------------|-------------|-----------|
|  | 2018                    | 2017        | 2016      |
| Segment and Consolidated Operating Results (in thousands):   |                         |             |           |
| Healthcare:  |                         |             |           |
| Revenues   | \$364,763               | \$356,909   | \$424,912 |
| Operating income   | \$108,060               | \$118,761   | \$147,903 |
| Segment operating income as a percentage of segment revenues | 29.6                    | % 33.3      | % 34.8    |
| Business Advisory:   |                         |             |           |
| Revenues   | \$236,185               | \$207,753   | \$151,543 |
| Operating income   | \$50,625                | \$46,600    | \$29,382  |
| Segment operating income as a percentage of segment revenues | 21.4                    | % 22.4      | % 19.4    |
| Education:   |                         |             |           |
| Revenues   | \$194,177               | \$167,908   | \$149,817 |
| Operating income   | \$48,243                | \$40,318    | \$38,310  |
| Segment operating income as a percentage of segment revenues | 24.8                    | % 24.0      | % 25.6    |
| Total Company:   |                         |             |           |
| Revenues   | \$795,125               | \$732,570   | \$726,272 |
| Reimbursable expenses  | 82,874                  | 75,175      | 71,712    |
| Total revenues and reimbursable expenses                     | \$877,999               | \$807,745   | \$797,984 |
| Statements of Operations reconciliation:                     |                         |             |           |
| Segment operating income                                     | \$206,928               | \$205,679   | \$215,595 |
| Items not allocated at the segment level:                    |                         |             |           |
| Other operating expenses                                     | 122,276                 | 120,718     | 111,852   |
| Other losses (gains), net                                    | (2,019 )                | 1,111       | (1,990 )  |
| Depreciation and amortization                                | 34,575                  | 38,213      | 31,499    |
| Goodwill impairment charges <sup>(1)</sup>                   | —                       | 253,093     | —         |
| Total operating income (loss)                                | 52,096                  | (207,456 )  | 74,234    |
| Other expense, net   | 26,875                  | 15,048      | 15,077    |
| Income (loss) from continuing operations before taxes        | 25,221                  | (222,504 )  | 59,157    |
| Income tax expense (benefit)                                 | 11,277                  | (51,999 )   | 19,677    |
| Net income (loss) from continuing operations                 | \$13,944                | \$(170,505) | \$39,480  |
| Earnings (loss) per share from continuing operations         |                         |             |           |
| Basic  | \$0.64                  | \$(7.95 )   | \$1.87    |
| Diluted  | \$0.63                  | \$(7.95 )   | \$1.84    |

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|  | Year Ended December |        |        |
|--|---------------------|--------|--------|
|  | 31,                 |        |        |
|  | 2018                | 2017   | 2016   |
| Other Operating Data (excluding All Other):  |                     |        |        |
| Number of full-time billable consultants (at period end) <sup>(2)</sup> :          |                     |        |        |
| Healthcare   | 813                 | 778    | 888    |
| Business Advisory  | 813                 | 809    | 547    |
| Education  | 621                 | 549    | 468    |
| Total  | 2,247               | 2,136  | 1,903  |
| Average number of full-time billable consultants (for the period) <sup>(2)</sup> : |                     |        |        |
| Healthcare   | 807                 | 796    | 998    |
| Business Advisory  | 769                 | 740    | 486    |
| Education  | 589                 | 509    | 437    |
| Total  | 2,165               | 2,045  | 1,921  |
| Full-time billable consultant utilization rate <sup>(3)</sup> :                    |                     |        |        |
| Healthcare   | 81.7 %              | 78.4 % | 77.1 % |
| Business Advisory  | 73.8 %              | 71.5 % | 73.1 % |
| Education  | 76.6 %              | 72.8 % | 70.6 % |
| Total  | 77.5 %              | 74.5 % | 74.6 % |
| Full-time billable consultant average billing rate per hour <sup>(4)</sup> :       |                     |        |        |
| Healthcare   | \$209               | \$206  | \$210  |
| Business Advisory <sup>(5)</sup>   | \$215               | \$205  | \$208  |
| Education  | \$202               | \$213  | \$219  |
| Total <sup>(5)</sup>   | \$209               | \$207  | \$212  |
| Revenue per full-time billable consultant (in thousands):                          |                     |        |        |
| Healthcare   | \$307               | \$295  | \$300  |
| Business Advisory  | \$293               | \$268  | \$293  |
| Education  | \$289               | \$291  | \$293  |
| Total  | \$297               | \$284  | \$297  |
| Average number of full-time equivalents (for the period) <sup>(6)</sup> :          |                     |        |        |
| Healthcare   | 219                 | 213    | 203    |
| Business Advisory  | 22                  | 20     | 20     |
| Education  | 39                  | 35     | 38     |
| Total  | 280                 | 268    | 261    |
| Revenue per full-time equivalent (in thousands):                                   |                     |        |        |
| Healthcare   | \$536               | \$576  | \$614  |
| Business Advisory  | \$484               | \$464  | \$453  |
| Education  | \$601               | \$564  | \$572  |
| Total  | \$541               | \$566  | \$596  |

The non-cash goodwill impairment charges are not allocated at the segment level because the underlying goodwill (1) asset is reflective of our corporate investment in the segments. We do not include the impact of goodwill impairment charges in our evaluation of segment performance.

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

(3) 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.

(4) 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.

Beginning in the third quarter of 2018, the average billing rate per hour excludes the number of hours charged on (5) internal assignments by consultants within Huron Eurasia India to provide a more meaningful average billing rate charged to external clients. Prior year periods have been revised for consistent presentation.

Consists of leadership coaches and their support staff within our Studer Group solution, consultants who work (6) variable schedules as needed by our clients, and full-time employees who provide software support and maintenance services to our clients.

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## Non-GAAP Measures

We also assess our results of operations using certain non-GAAP financial measures. These non-GAAP financial measures differ from GAAP because the non-GAAP financial measures we calculate to measure earnings (loss) 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):

|  | Year Ended December 31, |             |           |   |
|--|-------------------------|-------------|-----------|---|
|  | 2018                    | 2017        | 2016      |   |
| Revenues   | \$795,125               | \$732,570   | \$726,272 |   |
| Net income (loss) from continuing operations                                   | \$13,944                | \$(170,505) | \$39,480  |   |
| Add back:  |                         |             |           |   |
| Income tax expense (benefit)   | 11,277                  | (51,999 )   | 19,677    |   |
| Interest expense, net of interest income                                       | 19,013                  | 18,613      | 16,274    |   |
| Depreciation and amortization  | 38,822                  | 49,145      | 46,639    |   |
| Earnings (loss) before interest, taxes, depreciation and amortization (EBITDA) | 83,056                  | (154,746 )  | 122,070   |   |
| Add back:  |                         |             |           |   |
| Restructuring charges  | 3,657                   | 6,246       | 9,592     |   |
| Other losses (gains), net  | (2,019 )                | 1,111       | (1,990 )  |   |
| Goodwill impairment charges  | —                       | 253,093     | —         |   |
| Other non-operating expense (income), net                                      | 5,807                   | (696 )      | —         |   |
| Foreign currency transaction losses (gains), net                               | 475                     | (434 )      | (11 )     |   |
| Adjusted EBITDA  | \$90,976                | \$104,574   | \$129,661 |   |
| Adjusted EBITDA as a percentage of revenues                                    | 11.4                    | % 14.3      | % 17.9    | % |

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|   | Year Ended December 31, |             |          |
|---|-------------------------|-------------|----------|
|   | 2018                    | 2017        | 2016     |
| Net income (loss) from continuing operations                          | \$13,944                | \$(170,505) | \$39,480 |
| Weighted average shares - diluted                                     | 22,058                  | 21,439      | 21,424   |
| Diluted earnings (loss) per share from continuing operations          | \$0.63                  | \$(7.95)    | \$1.84   |
| Add back:   |                         |             |          |
| Amortization of intangible assets                                     | 23,955                  | 35,027      | 33,108   |
| Restructuring charges   | 3,657                   | 6,246       | 9,592    |
| Other losses (gains), net   | (2,019)                 | 1,111       | (1,990)  |
| Goodwill impairment charges   | —                       | 253,093     | —        |
| Non-cash interest on convertible notes                                | 8,232                   | 7,851       | 7,488    |
| Other non-operating expense (income), net                             | 5,807                   | (696)       | —        |
| Tax effect  | (9,487)                 | (91,557)    | (18,942) |
| Tax expense related to the enactment of Tax Cuts and Jobs Act of 2017 | 1,749                   | 8,762       | —        |
| Tax benefit related to "check-the-box" election                       | —                       | (2,728)     | —        |
| Total adjustments, net of tax   | 31,894                  | 217,109     | 29,256   |
| Adjusted net income from continuing operations                        | \$45,838                | \$46,604    | \$68,736 |
| Adjusted weighted average shares - diluted                            | 22,058                  | 21,627      | 21,424   |
| Adjusted diluted earnings per share from continuing operations        | \$2.08                  | \$2.15      | \$3.21   |

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

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

**Restructuring charges:** We have incurred charges due to the restructuring of various parts of our business. These restructuring charges have primarily consisted of costs associated with office space consolidations, including 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.

**Other losses (gains), net:** We have excluded the effects of the litigation settlement gain recorded in 2018 and the net remeasurement losses related to contingent acquisition liabilities in 2018 and 2017 and net remeasurement gains related to contingent acquisition liabilities in 2016 to permit comparability with periods that were not impacted by these items.

**Goodwill impairment charges:** We have excluded the effect of the goodwill impairment charges that occurred in 2017 as these are infrequent events and their exclusion permits comparability with periods that were not impacted by such charges.

**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.

**Other non-operating expense (income), net:** We have excluded the effects of other non-operating income and expense items as they are infrequent, management believes that these items are not indicative of the ongoing performance of our business, and their exclusion permits comparability with periods that were not impacted by such items. The other non-operating expense for 2018 consists of the loss on the sale of the Middle East practice within the Business Advisory segment in 2018. The other non-operating income for 2017 is primarily attributable to a \$0.9 million gain on the sale of our Life Sciences C&O practice, partially offset by a \$0.3 million remeasurement loss recorded on a promissory note that was amended in 2017.

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

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

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Tax expense related to the enactment of Tax Cuts and Jobs Act of 2017 ("2017 Tax Reform"): We have excluded the impact of the 2017 Tax Reform, which was enacted in the fourth quarter of 2017. The net tax expense recorded in 2018 was due to a valuation allowance for foreign tax credits and an adjustment to our withholding tax on outside basis differences due to our change in assertion for permanent reinvestment, which were partially offset by U.S. federal return to provision adjustments related to 2017 Tax Reform items on our 2017 corporate tax return. The tax expense for 2017 was primarily due to the remeasurement of net deferred tax balances at the lower federal income tax rate, additional one-time income tax expense related to the transition tax on accumulated foreign earnings, and withholding tax on outside basis differences due to our change in assertion for permanent reinvestment. The exclusion of the 2017 Tax Reform permits comparability with prior periods. Refer to Note 16 "Income Taxes" within the notes to the consolidated financial statements for additional information on the impact of the 2017 Tax Reform.

Tax benefit related to "check-the-box" election: We have excluded the effect of a tax benefit, recorded in 2017, from recognizing a previously unrecognized tax benefit from our "check-the-box" election made in 2014 to treat one of our wholly-owned foreign subsidiaries as a disregarded entity for U.S. federal income tax purposes. The exclusion of this discrete tax benefit permits comparability with periods that were not impacted by this item. Refer to Note 16 "Income Taxes" within the notes to the consolidated financial statements for additional information on our "check-the-box" elections.

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

Adjusted weighted average shares - diluted: As we reported a net loss for the year ended December 31, 2017, GAAP diluted weighted average shares outstanding equals the basic weighted average shares outstanding for that period. For the year ended December 31, 2017, the non-GAAP adjustments described above resulted in adjusted net income from continuing operations. Therefore, we included the dilutive common stock equivalents in the calculation of adjusted diluted weighted average shares outstanding for that period.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Revenues

Revenues increased \$62.6 million, or 8.5%, to \$795.1 million for the year ended December 31, 2018, from \$732.6 million for the year ended December 31, 2017. Revenues for 2018 included \$6.4 million of incremental revenues due to the full year impact of our acquisition of Innosight, which was completed in March of 2017.

On January 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers, on a modified retrospective basis, which resulted in changes to our accounting policy for revenue recognition, most notably for performance-based billing arrangements. For the year ended December 31, 2018, performance-based fee revenue was \$48.1 million compared to \$35.7 million in the same prior year period. Refer to Note 2 "Summary of Significant Accounting Policies" within the notes to our consolidated financial statements for additional information on our adoption of ASC 606.

Of the overall \$62.6 million increase in revenues, \$62.4 million was driven by our full-time billable consultants and \$0.2 million was driven by our full-time equivalents.

The increase in full-time billable consultant revenues was attributable to strengthened demand for services in all of our segments, as discussed below in Segment Results, and reflected increases in the average number of full-time billable consultants, the consultant utilization rate, and the average billing rate per hour in 2018 compared to 2017.

The increase in full-time equivalent revenues was attributable to increases in full-time equivalent revenues in our Education and Business Advisory segments, partially offset by a decrease in full-time equivalent revenues in our Healthcare segment, as discussed below in Segment Results; and reflected an increase in the average number of full-time equivalents, partially offset by a decrease in revenue per full-time equivalent.

Total Direct Costs

Our total direct costs, including amortization of intangible assets and software development costs, increased \$60.0 million, or 12.9%, to \$525.8 million for the year ended December 31, 2018 from \$465.7 million for the year ended

December 31, 2017. The overall \$60.0 million increase in direct costs primarily related to a \$36.3 million increase in performance bonus expense for our revenue-generating professionals and a \$26.0 million increase in salaries and related expenses for our revenue-generating professionals, which was largely driven by better performance within some of our operating segments and increased headcount across all segments. These increases were partially offset by a \$7.3 million decrease in intangible asset amortization expense. As a percentage of revenues, our total direct costs increased to 66.1% during 2018 compared to 63.6% during 2017, primarily due to the increase in performance bonus expense for our revenue-generating professionals as a percentage of revenues, partially offset by the decrease in amortization of intangible assets and revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals.

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Total direct costs for the year ended December 31, 2018 included \$2.8 million of amortization expense for intangible assets, primarily representing customer contracts and software acquired in business combinations, compared to \$10.1 million of amortization expense in 2017. The \$7.3 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 in prior periods, as well as certain other intangible assets acquired in our Studer Group, HSM and Innosight acquisitions which have been fully amortized. See Note 3 "Acquisitions" and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets. Amortization expense for the year ended December 31, 2018 also included \$1.4 million for amortization of capitalized software development costs, compared to \$0.8 million in 2017.

**Operating Expenses and Other Losses (Gains), Net**

Selling, general and administrative expenses increased \$5.6 million, or 3.2%, to \$181.0 million for the year ended December 31, 2018, compared to \$175.4 million for the year ended December 31, 2017. The overall increase of \$5.6 million was primarily related to a \$7.7 million increase in performance bonus expense for our support personnel, which was largely driven by better performance within some of our operating segments, a \$1.2 million increase in practice administration and meetings expenses, and a \$1.1 million increase in promotion and marketing expenses. These increases were partially offset by a \$1.4 million decrease in salaries and related expenses for our support personnel, a \$1.1 million decrease in legal expenses, and a \$1.0 million decrease in travel and entertainment expenses. As a percentage of revenues, selling, general and administrative expenses decreased to 22.8% during 2018 compared to 23.9% during 2017, primarily due to the items described above.

Restructuring charges for the year ended December 31, 2018 totaled \$3.7 million, compared to \$6.2 million for the year ended December 31, 2017. The \$3.7 million of restructuring charges in 2018 primarily consisted of \$1.1 million and \$1.0 million related to workforce reductions in our Healthcare segment and our Business Advisory segment, respectively, to better align resources with market demand; \$0.8 million related to the accrual of remaining lease payments, net of estimated sublease income, and accelerated depreciation on leasehold improvements due to exiting a portion of our Middleton, Wisconsin office; \$0.4 million related to updated lease assumptions and commission costs for our San Francisco office vacated in 2017; and \$0.3 million related to the divestiture of our Middle East practice within the Business Advisory segment. During the second quarter of 2018, we sold our Middle East business to a former employee who was the practice leader of that business at the time. The \$6.2 million of restructuring charges in 2017 included \$3.7 million related to workforce reductions to better align resources with market demand, of which \$2.2 million related to our Healthcare segment, \$1.1 million related to our Business Advisory segment, and \$0.4 million related to our corporate operations. The overall \$6.2 million of restructuring charges in 2017 also included \$2.4 million for office space reductions, which primarily consisted of the accrual of remaining lease obligations, net of estimated sublease income, for our offices in San Francisco, Chicago and New York, and accelerated depreciation on leasehold improvements in our San Francisco office. See Note 10 "Restructuring Charges" within the notes to our consolidated financial statements for further discussion of our restructuring expenses.

Other losses (gains), net totaled to a net gain of \$2.0 million for the year ended December 31, 2018, compared to a net loss of \$1.1 million for the year ended December 31, 2017. The net gain in 2018 primarily consisted of a \$2.5 million litigation settlement gain for the resolution of Huron's claim in a class action lawsuit, partially offset by \$0.4 million of net remeasurement losses due to an increase in the estimated fair value of our liabilities for contingent consideration payments related to business acquisitions. The net loss in 2017 represents net remeasurement losses due to an increase in the estimated fair values of our liabilities for contingent consideration related to business acquisitions. In connection with certain business acquisitions, we may be required to pay post-closing consideration to the sellers if specific financial performance targets are met over a number of years as specified in the related purchase agreements. See Note 12 "Fair Value of Financial Instruments" within the notes to our consolidated financial statements for additional information on the fair value of contingent consideration liabilities.

Depreciation and amortization expense decreased \$3.6 million, or 9.5%, to \$34.6 million for the year ended December 31, 2018, from \$38.2 million for the year ended December 31, 2017. The decrease was primarily attributable to decreasing amortization expense of the trade name acquired in our Studer Group acquisition as well as

certain customer relationships acquired in other business acquisitions, due to the accelerated basis of amortization in prior periods, partially offset by amortization expense for intangible assets acquired in the Innosight acquisition. Intangible asset amortization included within operating expenses primarily relates to certain customer relationships, trade names, and non-competition agreements acquired in connection with our business acquisitions. See Note 3 "Acquisitions" and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets.

During 2017, we recorded \$253.1 million of non-cash pretax goodwill impairment charges. Of the \$253.1 million, \$208.1 million related to our Healthcare reporting unit and \$45.0 million related to our Enterprise Solutions and Analytics reporting unit which is included in our Business Advisory segment. These charges are non-cash in nature and do not affect our liquidity or debt covenants. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for further discussion of these charges.

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## Operating Income (Loss)

Operating income increased \$259.6 million, to income of \$52.1 million for the year ended December 31, 2018, from a loss of \$207.5 million for the year ended December 31, 2017. The increase is primarily attributable to the \$253.1 million non-cash pretax goodwill impairment charges recorded in 2017. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about the goodwill impairment charges. Operating margin, which is defined as operating income (loss) expressed as a percentage of revenues, increased to 6.6% in 2018 compared to (28.3)% in 2017. The increase in operating margin was primarily attributable to the goodwill impairment charges recorded in 2017.

## Other Expense, Net

Total other expense, net increased by \$11.8 million to \$26.9 million for the year ended December 31, 2018, from \$15.0 million for the year ended December 31, 2017. The increase in total other expense, net was primarily attributable to a \$5.8 million loss on the divestiture of our Middle East practice within our Business Advisory segment, compared to a \$0.9 million gain on the divestiture of our Life Sciences Compliance and Operations solution within our Business Advisory segment in 2017. During the second quarter of 2018, we sold our Middle East business to a former employee who was the practice leader of that business at the time. The increase in total other expense, net was also attributable to a \$1.6 million loss in the market value of our investments that are used to fund our deferred compensation liability, compared to a \$2.4 million gain for the same prior year period; and \$0.5 million of foreign currency transaction losses in 2018 compared \$0.4 million of gains in 2017.

## Income Tax Expense

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("2017 Tax Reform"), a tax reform bill which, among other items, reduced the corporate federal income tax rate from 35% to 21% and moved from a worldwide tax system to a territorial system. As a result of the enactment of this legislation during the fourth quarter of 2017, we estimated the remeasurement of our net deferred taxes based on the new lower tax rate, as well as provided for additional one-time income tax expense estimates primarily related to the transition tax on accumulated foreign earnings and elimination of foreign tax credits for dividends that are subject to the 100 percent exemption in our consolidated financial statements as of and for the year ended December 31, 2017. In 2017 and the first nine months of 2018, we recorded provisional amounts for certain enactment-date effects of 2017 Tax Reform by applying the guidance in Staff Accounting Bulletin ("SAB") No. 118 because we had not yet completed our enactment-date accounting for these effects.

As of December 31, 2018, we have now completed our accounting for all of the enactment-date income tax effects of 2017 Tax Reform. For the year ended December 31, 2018, we recorded tax expense of \$2.2 million related to establishing a valuation allowance for foreign tax credits, a tax benefit of \$0.6 million related to the U.S. federal return to provision adjustments for the remeasurement of our net deferred taxes based on the new lower rate, and tax expense of \$0.2 million related to withholding tax on outside basis differences due to our change in assertion for permanent reinvestment. These amounts are recorded as a component of income tax expense from continuing operations.

For the year ended December 31, 2018, our effective tax rate was 44.7% as we recognized income tax expense from continuing operations of \$11.3 million on income from continuing operations of \$25.2 million. For the year ended December 31, 2017, our effective tax rate was 23.4% as we recognized income tax benefit from continuing operations of \$52.0 million on a loss from continuing operations of \$222.5 million.

The effective tax rate for 2018 was less favorable than the statutory rate, inclusive of state income taxes, of 26.2%, primarily due to \$1.8 million of discrete tax expense for valuation allowances, primarily due to uncertainties relating to the ability to utilize deferred tax assets recorded for foreign tax credits, which had an unfavorable impact of 6.9% on the effective tax rate; \$1.2 million of discrete tax expense for share-based compensation awards that vested during 2018, which had an unfavorable impact of 4.9% on the effective tax rate; \$0.6 million of additional tax expense related to disallowed executive compensation deductions, which had an unfavorable impact of 2.5% on the effective tax rate; and \$0.6 million of additional tax expense related to the change in fair value of contingent consideration, which had an unfavorable impact of 2.4% on the effective tax rate.

The effective tax rate for 2017 was less favorable than the statutory rate, inclusive of state income taxes, primarily due to the \$65.0 million non-deductible portion of the goodwill impairment charges related to the Healthcare and Enterprise Solutions and Analytics reporting units recorded in 2017; \$8.8 million of discrete income tax expense related to the enactment of the 2017 Tax Reform in the fourth quarter of 2017; and \$1.8 million of discrete tax expense for share-based compensation related to the adoption of ASU 2016-09 Improvements to Employee Share-Based Payment Accounting. These unfavorable discrete items were partially offset by a \$2.7 million tax benefit recorded in the third quarter of 2017 related to a previously unrecognized tax benefit from our 2014 "check-the-box" election. Refer to Note 16 "Income Taxes" within the notes to our consolidated financial statements for additional information related to our income tax expense.

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### Net Income (Loss) from Continuing Operations

Net income from continuing operations increased by \$184.4 million, to net income from continuing operations of \$13.9 million for the year ended December 31, 2018, compared to a net loss from continuing operations of \$170.5 million for the year ended December 31, 2017. The increase was primarily attributable to the \$253.1 million of non-cash pretax goodwill impairment charges recorded in 2017. As a result of the increase in net income from continuing operations, diluted earnings per share from continuing operations for the year ended December 31, 2018 was \$0.63 compared to diluted loss per share from continuing operations of \$7.95 for 2017. The non-cash goodwill impairment charges had an \$8.40 unfavorable impact on diluted earnings per share from continuing operations in 2017.

### EBITDA and Adjusted EBITDA

EBITDA increased \$237.8 million, to earnings of \$83.1 million for the year ended December 31, 2018, from a loss of \$154.7 million for the year ended December 31, 2017. Adjusted EBITDA decreased \$13.6 million, or 13.0%, to \$91.0 million in 2018 from \$104.6 million in 2017. The increase in EBITDA was primarily attributable to the non-cash goodwill impairment charges of \$253.1 million recorded in 2017. The decrease in adjusted EBITDA was primarily due to the increase in performance bonus expense for our revenue-generating professionals and support personnel.

### Adjusted Net Income from Continuing Operations

Adjusted net income from continuing operations decreased \$0.8 million, or 1.6%, to \$45.8 million for the year ended December 31, 2018, compared to \$46.6 million for the year ended December 31, 2017. As a result of the decrease in adjusted net income from continuing operations, adjusted diluted earnings per share from continuing operations for 2018 was \$2.08, compared to \$2.15 for 2017.

### Segment Results

#### Healthcare

##### Revenues

Healthcare segment revenues increased \$7.9 million, or 2.2%, to \$364.8 million for the year ended December 31, 2018, from \$356.9 million for the year ended December 31, 2017.

For the year ended December 31, 2018, revenues from fixed-fee arrangements, time-and-expense arrangements, performance-based arrangements, and software support and maintenance and subscription arrangements represented 65.6%, 16.0%, 11.7%, and 6.7% of this segment's revenues, respectively, compared to 67.7%, 16.1%, 8.7%, and 7.5%, respectively, in 2017.

Of the overall \$7.9 million increase in revenues, \$13.0 million was attributable to an increase in revenues from our full-time billable consultants, partially offset by a \$5.1 million decrease in revenues generated by our full-time equivalents.

The increase in revenue attributable to our full-time billable consultants was primarily driven by increased demand for our performance improvement and technology and analytics solutions and reflected increases in the consultant utilization rate, the average number of full-time billable consultants, and the average billing rate. Performance-based fee revenue was \$42.7 million in 2018, and was recognized in accordance with ASC 606, which we adopted on a modified retrospective basis on January 1, 2018. Performance-based fee revenue was \$30.9 million in 2017, and was recognized in accordance with ASC 605, Revenue Recognition. Refer to Note 2 "Summary of Significant Accounting Policies" within the notes to our consolidated financial statements for additional information on our adoption of ASC 606. The level of performance-based fees earned may vary based on our clients' risk sharing preferences and the mix of services we provide.

The decrease in revenues attributable to our full-time equivalents was primarily driven by lower revenues in our Studer Group solution, partially offset by an increased use of contractors and part-time project consultants and an increase in license revenue; and reflected a decrease in revenue per full-time equivalent, partially offset by an increase in the average number of full-time equivalents in 2018 compared to 2017.

### Operating Income

Healthcare segment operating income decreased \$10.7 million, or 9.0%, to \$108.1 million for the year ended December 31, 2018, from \$118.8 million for the year ended December 31, 2017. The Healthcare segment operating

margin, defined as segment operating income expressed as a percentage of segment revenues, decreased to 29.6% in 2018 from 33.3% in 2017. The decrease in this segment's operating margin was primarily attributable to an increase in performance bonus expense for both our revenue-generating professionals and support personnel, as well as an increase in contractor expenses and signing and retention bonuses for our revenue-generating professionals, all as percentages of revenue, partially offset by a decrease in intangible asset amortization expense.

The non-cash goodwill impairment charge related to our Healthcare segment discussed above within the consolidated results is not allocated at the segment level because the underlying goodwill asset is reflective of our corporate investment in the segments. We do not include the

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impact of goodwill impairment charges in our evaluation of segment performance. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangibles Assets" within the notes to our consolidated financial statements for further discussion of this charge.

**Business Advisory****Revenues**

Business Advisory segment revenues increased \$28.4 million, or 13.7%, to \$236.2 million for the year ended December 31, 2018, from \$207.8 million for the year ended December 31, 2017. Revenues for 2018 included \$6.4 million of incremental revenues due to the full period impact of our acquisition of Innosight, which was completed in March 2017.

For the year ended December 31, 2018, revenues from fixed-fee arrangements, time-and-expense arrangements, performance-based arrangements, and software support and maintenance and subscription arrangements represented 41.5%, 54.5%, 2.3%, and 1.7% of this segment's revenues, respectively, compared to 34.8%, 61.4%, 2.1%, and 1.7%, respectively, in 2017. Performance-based fee revenue for the year ended December 31, 2018 was \$5.4 million compared to \$4.5 million in 2017. Refer to Note 2 "Summary of Significant Accounting Policies" within the notes to our consolidated financial statements for additional information on our adoption of ASC 606. The level of performance-based fees earned may vary based on our clients' preferences and the mix of services we provide. Of the overall \$28.4 million increase in revenues, \$26.8 million was attributable to our full-time billable consultants and \$1.6 million was attributable to our full-time equivalents. The increase in revenues from our full-time billable consultants was driven by increases in the average billing rate, the average number of full-time billable consultants, and the consultant utilization rate. The increase in revenues from our full-time equivalents reflected increases in the average number of full-time equivalents and revenue per full-time equivalent in 2018 compared to 2017.

**Operating Income**

Business Advisory segment operating income increased by \$4.0 million, or 8.6%, to \$50.6 million for the year ended December 31, 2018, compared to \$46.6 million for the year ended December 31, 2017. Segment operating margin decreased to 21.4% for 2018 from 22.4% for 2017. The decrease in this segment's operating margin was primarily attributable to an increase in performance bonus expense for our revenue-generating professionals as a percentage of revenues, largely offset by revenue growth that outpaced the increase in salaries and related expenses for our revenue-generating professionals and decreases in salaries and related expenses for our support personnel, intangible asset amortization expense, and contractor expense.

The non-cash goodwill impairment charge recorded in 2017 related to the Enterprise Solutions and Analytics practice, which is part of the Business Advisory segment, discussed above within the consolidated results, is not allocated at the segment level because the underlying goodwill asset is reflective of our corporate investment in the segments. We do not include the impact of goodwill impairment charges in our evaluation of segment performance. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangibles Assets" within the notes to our consolidated financial statements for further discussion of this charge.

**Education****Revenues**

Education segment revenues increased \$26.3 million, or 15.6%, to \$194.2 million for the year ended December 31, 2018, from \$167.9 million for the year ended December 31, 2017.

For the year ended December 31, 2018, revenues from fixed-fee arrangements, time-and-expense arrangements, and software support and maintenance and subscription arrangements represented 20.4%, 72.5%, and 7.1% of this segment's revenues, respectively. For the year ended December 31, 2017, revenues from fixed-fee engagements, time-and-expense engagements, performance-based engagements, and software support and maintenance and subscription arrangements represented 16.6%, 77.5%, 0.2%, and 5.7%, of this segment's revenues, respectively. Of the overall \$26.3 million increase in revenues, \$22.5 million was attributable to our full-time billable consultants and \$3.8 million was attributable to our full-time equivalents. The increase in revenues from our full-time billable consultants reflected increases in the average number of full-time billable consultants and the consultant utilization rate, partially offset by a decrease in the average billing rate. The increase in revenues from our full-time equivalents

was driven by an increased use of our part-time project consultants and an increase in license revenues; and reflected increases in the average number of full-time equivalents and revenue per full-time equivalent in 2018 compared to 2017.

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## Operating Income

Education segment operating income increased \$7.9 million, or 19.7%, to \$48.2 million for the year ended December 31, 2018, from \$40.3 million for the year ended December 31, 2017. The Education segment operating margin increased to 24.8% for 2018 from 24.0% for 2017. The increase in this segment's operating margin was primarily attributable to decreases in salaries and related expenses for our support personnel and contractor expense, as well as revenue growth that outpaced the increase in performance bonus expense for our revenue-generating professionals, partially offset by an increase in salaries and related expenses for our revenue generating professionals as a percentage of revenues.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

## Revenues

Revenues increased \$6.3 million, or 0.9%, to \$732.6 million for the year ended December 31, 2017, from \$726.3 million for the year ended December 31, 2016. Revenues for 2017 included \$43.9 million from our acquisitions of Innosight and Pope Woodhead, which were completed in the first quarter of 2017, and \$13.9 million of incremental revenues due to the full year impact of our acquisitions of MyRounding and HSM Consulting, which were completed in the first and third quarters of 2016, respectively. Revenues for 2017 also included a full period impact of our acquisition of the U.S. assets of ADI Strategies and revenues from our acquisition of the international assets of ADI Strategies. These acquisitions were completed in May 2016 and April 2017, respectively, and have since been fully integrated into the Business Advisory segment.

Of the overall \$6.3 million increase in revenues, \$10.6 million was attributable to our full-time billable consultants, partially offset by a \$4.3 million decrease in revenues attributable to our full-time equivalents.

The increase in full-time billable consultant revenues was driven by an increase in the average number of full-time billable consultants, partially offset by decreases in the average billing rate and consultant utilization rate. As discussed below in Segment Results, this increase in full-time billable consultant revenues reflected our acquisitions of Innosight and Pope Woodhead, as well as strengthened demand for services in our Business Advisory and Education segments, partially offset by decreased demand for services in our Healthcare segment.

The decrease in full-time equivalent revenues was primarily attributable to a decrease in the revenue from our Studer Group solution within our Healthcare segment as discussed below in Segment Results.

## Total Direct Costs

Our total direct costs, including amortization of intangible assets and software development costs, increased \$13.0 million, or 2.9%, to \$465.7 million for the year ended December 31, 2017 from \$452.7 million for the year ended December 31, 2016. The overall \$13.0 million increase in direct costs primarily related to a \$17.5 million increase in salaries and related expenses for our revenue-generating professionals, which was largely driven by increased headcount from acquisitions and our continued investment in revenue-generating consultants in our cloud-based enterprise resource planning (ERP) implementation practices, partially offset by a decrease in salaries and related expenses in our Healthcare segment as a result of headcount reductions. Additional increases in direct costs included a \$3.3 million increase in contractor expense and a \$2.7 million increase in signing and retention bonus expense for our revenue-generating professionals. All of these increases were partially offset by a \$5.6 million decrease in performance bonus expense for our revenue-generating professionals, a \$4.0 million decrease in intangible asset amortization expense, and a \$1.2 million decrease in share-based compensation expense for our revenue-generating professionals. As a percentage of revenues, our total direct costs increased to 63.6% during 2017 compared to 62.3% during 2016, primarily due to the items described above.

Total direct costs for the year ended December 31, 2017 included \$10.9 million of amortization expense for intangible assets, primarily representing customer contracts and software acquired in business combinations, and internal software development costs, compared to \$15.1 million of amortization expense in 2016. The \$4.2 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, and the customer contracts acquired as part of our acquisition of the U.S. assets of ADI Strategies which were fully amortized in 2016, partially offset by the amortization of intangible assets acquired in the acquisitions of Innosight and HSM Consulting. See Note 3

"Acquisitions" and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets.

Operating Expenses and Other Gains, Net

Selling, general and administrative expenses increased \$15.2 million, or 9.5%, to \$175.4 million for the year ended December 31, 2017, compared to \$160.2 million for the year ended December 31, 2016. Selling, general and administrative expenses for 2017 included \$14.5 million from Innosight and Pope Woodhead. The overall increase of \$15.2 million was primarily related to a \$10.4 million increase in salaries and related expenses for our support personnel; a \$2.7 million increase in facilities and other office-related expenses; a \$2.0 million increase in travel related costs, largely related to the operations of our aircraft purchased in connection with our Innosight acquisition; a \$1.4 million

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increase in third-party consulting expenses; a \$1.0 million increase in promotion and sponsorship expenses; and a \$0.9 million increase in signing and retention bonus expense for our support personnel. These increases were partially offset by a \$2.6 million decrease in performance bonus expenses for our support personnel, a \$1.1 million decrease in legal expenses, and a \$1.0 million decrease in share-based compensation expense for our support personnel. As a percentage of revenues, selling, general and administrative expenses increased to 23.9% during 2017 compared to 22.1% during 2016, primarily due to the items described above.

Restructuring charges for the year ended December 31, 2017 totaled \$6.2 million, compared to \$9.6 million for the year ended December 31, 2016. The \$6.2 million of restructuring charges in 2017 included \$3.7 million related to workforce reductions to better align resources with market demand, of which \$2.2 million related to our Healthcare segment, \$1.1 million related to our Business Advisory segment, and \$0.4 million related to our corporate operations. The overall \$6.2 million of restructuring charges also included \$2.4 million of office space reductions, which primarily consisted of the accrual of remaining lease obligations, net of estimated sublease income, due to relocating our San Francisco office to a smaller space and consolidating our Chicago and New York offices, and accelerated depreciation on leasehold improvements in our San Francisco office. The \$9.6 million of restructuring charges in 2016 primarily consisted of \$7.3 million related to workforce reductions, of which \$5.8 million related to our Healthcare segment and \$0.6 million related to our Business Advisory segment, both to better align resources with market demand, and \$0.9 million related to our corporate operations primarily to adjust our infrastructure to align with our Legal divestiture. The \$9.6 million of restructuring charges also included \$1.5 million related to updated lease accrual assumptions, primarily for our Washington, D.C. space vacated in the fourth quarter of 2014, and \$0.8 million related to the wind down of our foreign operations based in the Middle East and other exit costs. See Note 10 "Restructuring Charges" within the notes to our consolidated financial statements for further discussion of our restructuring expenses. Other gains (losses), net totaled a net loss of \$1.1 million for the year ended December 31, 2017, compared to a net gain of \$2.0 million for the year ended December 31, 2016. The net loss in 2017 and the net gain in 2016 represent the changes in the estimated fair values of our liabilities for contingent consideration related to business acquisitions. In connection with certain business acquisitions, we may be required to pay post-closing consideration to the sellers if specific financial performance targets are met over a number of years as specified in the related purchase agreements. See Note 12 "Fair Value of Financial Instruments" within the notes to our consolidated financial statements for additional information on the fair value of contingent consideration liabilities.

Depreciation and amortization expense increased \$6.7 million, or 21.3%, to \$38.2 million for the year ended December 31, 2017, from \$31.5 million for the year ended December 31, 2016. The increase was primarily attributable to amortization expense for intangible assets acquired in the Innosight, Pope Woodhead, and ADI Strategies acquisitions, 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, trade names, and non-competition agreements acquired in connection with our business acquisitions. See Note 3 "Acquisitions" and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about our intangible assets.

During 2017, we recorded \$253.1 million of non-cash goodwill impairment charges. Of the \$253.1 million, \$208.1 million related to our Healthcare reporting unit and \$45.0 million related to our Enterprise Solutions and Analytics reporting unit which is included in our Business Advisory segment. These charges are non-cash in nature and do not affect our liquidity or debt covenants. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for further discussion of these charges.

#### Operating Income (Loss)

Operating income decreased \$281.7 million, to a loss of \$207.5 million for the year ended December 31, 2017, from income of \$74.2 million for the year ended December 31, 2016. The decrease is primarily attributable to the \$253.1 million non-cash pretax goodwill impairment charges recorded in 2017. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information about the non-cash goodwill impairment charges. Operating margin, which is defined as operating income (loss) expressed as a percentage of revenues, decreased to (28.3)% in 2017 compared to 10.2% in

2016. The decrease in operating margin was primarily attributable to the goodwill impairment charges, as well as increases in salaries and related expenses for both our revenue-generating professionals and support personnel.

Other Expense, Net

Total other expense, net decreased slightly to \$15.0 million for the year ended December 31, 2017, from \$15.1 million for the year ended December 31, 2016. The decrease was primarily attributable to a \$2.4 million gain on the market value of our investments that are used to fund our deferred compensation liability, compared to a \$1.2 million gain in 2016, as well as a \$0.9 million gain on the sale of our Life Sciences Compliance and Operations solution ("LS C&O") within our Business Advisory segment in the second quarter of 2017, and a \$0.4 million increase in foreign currency transaction gains. These decreases were largely offset by a \$2.3 million increase in interest expense, net of interest income due to higher levels of borrowings and higher interest rates under our credit facility during 2017 compared to 2016. See Note 4 "Goodwill and Intangible Assets" within the notes to our consolidated financial statements for additional information on the sale of LS C&O.

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## Income Tax Expense

For the year ended December 31, 2017, our effective tax rate was 23.4% as we recognized income tax benefit from continuing operations of \$52.0 million on a loss from continuing operations of \$222.5 million. For the year ended December 31, 2016, our effective tax rate was 33.3% as we recognized income tax expense from continuing operations of \$19.7 million on income from continuing operations of \$59.2 million. The effective tax rate for 2017 was less favorable than the statutory rate, inclusive of state income taxes, primarily due to the \$65.0 million non-deductible portion of the goodwill impairment charges related to the Healthcare and Enterprise Solutions and Analytics reporting units recorded in 2017; \$8.8 million of discrete income tax expense related to the enactment of the 2017 Tax Reform in the fourth quarter of 2017; and \$1.8 million of discrete tax expense for share-based compensation related to the adoption of ASU 2016-09 Improvements to Employee Share-Based Payment Accounting. Refer to Note 2 "Summary of Significant Accounting Policies" for additional information on the adoption of ASU 2016-09. These unfavorable discrete items were partially offset by a \$2.7 million tax benefit recorded in the third quarter of 2017 related to a previously unrecognized tax benefit from our 2014 "check-the-box" election.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act ("2017 Tax Reform"), a tax reform bill which, among other items, reduces the current corporate federal income tax rate from 35% to 21% and moves from a worldwide tax system to a territorial system. The rate reduction is effective January 1, 2018. As a result of the enactment of the legislation in 2017, we estimated the remeasurement of our net deferred taxes based on the new lower tax rate, as well as provided for additional one-time income tax expense estimates primarily related to the transition tax on accumulated foreign earnings and elimination of foreign tax credits for dividends that are subject to the 100 percent exemption in our consolidated financial statements as of and for the year ended December 31, 2017. Our provisional analysis resulted in \$8.8 million of additional income tax expense for the year ended December 31, 2017. Of the \$8.8 million, \$7.9 million related to the remeasurement of our deferred tax balances at the lower federal income tax rate; \$0.6 million related to the transition tax on accumulated foreign earnings, net of applicable foreign tax credits; and \$0.3 million related to withholding tax on outside basis differences due to our change in assertion for permanent reinvestment. The impacts on our financial statements as of December 31, 2017, as a result of 2017 Tax Reform, were considered preliminary and based on the information that was currently available at that time. These provisional results were subject to future adjustments as additional analysis was anticipated based on technical corrections and regulatory interpretations to come. We expected to finalize the analysis as soon as practicable, but, in accordance with Staff Accounting Bulletin ("SAB") No. 118, which was issued as a result of 2017 Tax Reform, not later than one year from the enactment date. Changes to our provisional analysis are included as an adjustment to tax expense or benefit in the period the amounts are determined. As of December 31, 2018, we have completed our accounting for all of the enactment-date income tax effects of 2017 Tax Reform. See Note 16 "Income Taxes" within the notes to our consolidated financial statements for further discussion of the accounting impact of 2017 Tax Reform.

The effective tax rate for 2016 was lower than the statutory rate, inclusive of state income taxes, primarily due to valuation allowance reductions, certain credits and deductions, non-taxable income, and a discrete tax benefit related to share-based compensation, partially offset by non-deductible business expenses. In 2016, we released certain valuation allowances primarily related to foreign tax credits, as we expect to have sufficient foreign source income to utilize these credits before their expiration.

## Net Income (Loss) from Continuing Operations

Net income from continuing operations decreased by \$210.0 million, to a net loss from continuing operations of \$170.5 million for the year ended December 31, 2017, compared to net income from continuing operations of \$39.5 million for the year ended December 31, 2016. The decrease was primarily attributable to the \$253.1 million non-cash pretax goodwill impairment charges recorded in 2017. As a result of the decrease in net income from continuing operations, diluted loss per share from continuing operations for the year ended December 31, 2017 was \$7.95 compared to diluted earnings per share from continuing operations of \$1.84 for 2016. The non-cash goodwill impairment charges had an \$8.40 unfavorable impact on diluted earnings per share from continuing operations in 2017.

#### Discontinued Operations

Net income from discontinued operations for the year ended December 31, 2017 was \$0.4 million and primarily related to updated lease assumptions for vacated office spaces directly related to the sale of the Huron Legal segment. Net loss from discontinued operations for the year ended December 31, 2016 was \$1.9 million and primarily related to obligations for former employees, legal fees, and updated lease assumptions for vacated office spaces directly related to the sale of the Huron Legal segment.

#### EBITDA and Adjusted EBITDA

EBITDA decreased \$276.8 million, to a loss of \$154.7 million for the year ended December 31, 2017, from earnings of \$122.1 million for the year ended December 31, 2016. Adjusted EBITDA decreased \$25.1 million, or 19.3%, to \$104.6 million in 2017 from \$129.7 million in 2016. The decrease in EBITDA was primarily attributable to the non-cash goodwill impairment charges of \$253.1 million recorded in 2017. The decrease in adjusted EBITDA was primarily due to the decrease in segment operating income, as discussed below in Segment Results, as well as an increase in corporate expenses primarily due to our acquisitions of Innosight and Pope Woodhead.

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### Adjusted Net Income from Continuing Operations

Adjusted net income from continuing operations decreased \$22.1 million, or 32.2%, to \$46.6 million for the year ended December 31, 2017, compared to \$68.7 million for the year ended December 31, 2016. As a result of the decrease in adjusted net income from continuing operations, adjusted diluted earnings per share from continuing operations for 2017 was \$2.15, compared to \$3.21 for 2016.

### Segment Results

#### Healthcare

#### Revenues

Healthcare segment revenues decreased \$68.0 million, or 16.0%, to \$356.9 million for the year ended December 31, 2017, from \$424.9 million for the year ended December 31, 2016. Revenues for 2017 included \$13.9 million of incremental revenues due to the full year impact of our acquisitions of MyRounding and HSM Consulting, which were completed in the first and third quarters of 2016, respectively.

For the year ended December 31, 2017, revenues from fixed-fee engagements, time-and-expense engagements, performance-based arrangements, and software support and maintenance and subscription arrangements represented 67.7%, 16.1%, 8.7%, and 7.5% of this segment's revenues, respectively, compared to 68.9%, 11.6%, 13.5%, and 6.0%, respectively, in 2016.

Of the overall \$68.0 million decrease in revenues, \$65.5 million was attributable to a decrease in revenue from our full-time billable consultants, and \$2.5 million was attributable to a decrease in revenue generated by our full-time equivalents.

The decrease in revenue attributable to our full-time billable consultants was primarily driven by decreased demand for our performance improvement solution and reflected decreases in the average number of full-time billable consultants and the average billing rate, partially offset by an increase in the consultant utilization rate.

Performance-based fee revenue was \$30.9 million in 2017 compared to \$57.2 million in 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 also 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 decrease in full-time equivalent revenues was primarily driven by a decreased demand for our Studer Group solution and reflected a decrease in revenue per full-time equivalent, partially offset by an increase in the average number of full-time equivalents in 2017 compared to 2016.

#### Operating Income

Healthcare segment operating income decreased \$29.1 million, or 19.7%, to \$118.8 million for the year ended December 31, 2017, from \$147.9 million for the year ended December 31, 2016. The Healthcare segment operating margin, defined as segment operating income expressed as a percentage of segment revenues, decreased to 33.3% in 2017 from 34.8% in 2016. The decrease in this segment's operating margin was primarily attributable to an increase, as a percentage of revenues, in salaries and related expenses for both our support personnel and revenue-generating professionals, as well as an increase in contractor expenses, partially offset by decreases in restructuring charges, performance bonus expense for our revenue-generating professionals, and intangible asset amortization expense, all as a percentage of revenues, in 2017 compared to 2016.

The non-cash goodwill impairment charge related to our Healthcare segment discussed above within the consolidated results is not allocated at the segment level because the underlying goodwill asset is reflective of our corporate investment in the segments. We do not include the impact of goodwill impairment charges in our evaluation of segment performance. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangibles Assets" within the notes to our consolidated financial statements for further discussion of this charge and our most recent goodwill impairment test performed as of November 30, 2017. We will continue to evaluate goodwill for impairment during future periods. Any future significant decline in the performance of the Healthcare segment compared to our internal forecasts could result in another non-cash goodwill impairment charge.

#### Business Advisory

#### Revenues

Business Advisory segment revenues increased \$56.2 million, or 37.1%, to \$207.8 million for the year ended December 31, 2017, from \$151.5 million for the year ended December 31, 2016. Revenues for 2017 included \$43.9 million from our acquisitions of Innosight and Pope Woodhead, which were completed in the first quarter of 2017. Revenues for 2017 also included a full period impact of our acquisition of the U.S. assets of ADI Strategies and revenues from our acquisition of the international assets of ADI Strategies. These acquisitions were completed in May 2016 and April 2017, respectively, and have since been fully integrated into the Business Advisory segment.

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For the year ended December 31, 2017, revenues from fixed-fee engagements, time-and-expense engagements, performance-based engagements, and software support and maintenance and subscription arrangements represented 34.8%, 61.4%, 2.1%, and 1.7% of this segment's revenues, respectively, compared to 19.8%, 74.6%, 4.1%, and 1.5%, respectively, in 2016. Performance-based fee revenue for the year ended December 31, 2017 was \$4.5 million compared to \$6.2 million in 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.

The overall \$56.2 million increase in revenues was primarily attributable to an increase in revenue generated by our full-time billable consultants. The increase in revenue from our full-time billable consultants was primarily driven by our acquisitions of Innosight, ADI Strategies, and Pope Woodhead, and reflected an increase in the average number of full-time billable consultants, partially offset by decreases in the average billing rate and consultant utilization rate.

Operating Income

Business Advisory segment operating income increased by \$17.2 million, or 58.6%, to \$46.6 million for the year ended December 31, 2017, compared to \$29.4 million for the year ended December 31, 2016. Segment operating margin increased to 22.4% for 2017 from 19.4% for 2016. The increase in this segment's operating margin was primarily attributable to decreases in performance bonus expense and share-based compensation for our revenue-generating professionals, as well as a decrease in contractor expense. These increases to operating margin were partially offset by increases in salaries and related expenses for our revenue-generating professionals; travel related costs, largely related to the operations of our aircraft purchased in connection with our Innosight acquisition; third-party consulting expenses; and signing and retention bonus expense for our revenue-generating professionals, all as a percentage of revenues.

While the Business Advisory segment's revenues and operating income increased year-over-year, the Enterprise Solutions and Analytics practice within this segment experienced a decline in revenues and operating income in the fourth quarter of 2017 compared to the third quarter of 2017. During the first three quarters of 2017, the performance of Enterprise Solutions and Analytics continued to reasonably meet our expectations. However, both revenues and operating margin during the fourth quarter of 2017 fell short of our expectations resulting in a reduction in workforce within the reporting unit during that quarter. As a result, our goodwill impairment test conducted as of November 30, 2017, indicated that the fair value of the Enterprise Solutions and Analytics reporting unit no longer exceeded its carrying value, and we recorded a \$45.0 million non-cash pretax goodwill impairment charge to write off the entire carrying value of this reporting unit's goodwill.

This non-cash goodwill impairment charge is not allocated at the segment level because the underlying goodwill asset is reflective of our corporate investment in the segments. We do not include the impact of goodwill impairment charges in our evaluation of segment performance. See the "Critical Accounting Policies" section below and Note 4 "Goodwill and Intangibles Assets" within the notes to our consolidated financial statements for further discussion of this charge.

EducationRevenues

Education segment revenues increased \$18.1 million, or 12.1%, to \$167.9 million for the year ended December 31, 2017, from \$149.8 million for the year ended December 31, 2016.

For the year ended December 31, 2017, revenues from fixed-fee engagements, time-and-expense engagements, performance-based arrangements, and software support and maintenance and subscription arrangements represented 16.6%, 77.5%, 0.2%, and 5.7% of this segment's revenues, respectively, compared to 14.4%, 78.9%, 0.7%, and 6.0%, respectively, during 2016.

Of the overall \$18.1 million increase in revenues, \$20.0 million was attributable to an increase in revenue generated by our full-time billable consultants, partially offset by a \$1.9 million decrease in revenue generated by our full-time equivalents. The increase in revenues from our full-time billable consultants reflected an increase in the average number of full-time billable consultants and the consultant utilization rate, partially offset by a decrease in the average

billing rate. The decrease in revenue from our full-time equivalents reflected decreases in the average number of full-time equivalents and revenue per full-time equivalent in 2017 compared to 2016.

Operating Income

Education segment operating income increased \$2.0 million, or 5.2%, to \$40.3 million for the year ended December 31, 2017, from \$38.3 million for the year ended December 31, 2016. The Education segment operating margin decreased to 24.0% for 2017 from 25.6% for 2016. The decrease in this segment's operating margin was primarily attributable to an increase in salaries and related expenses for our revenue-generating professionals, which was largely driven by our continued investment in revenue-generating consultants in our cloud-based enterprise resource planning (ERP) implementation practices, and performance bonus expenses for our revenue-generating professionals, all as a percentage of revenues, partially offset by a decrease in project costs.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

Cash and cash equivalents were \$33.1 million, \$16.9 million, and \$17.0 million at December 31, 2018, 2017, and 2016, respectively. As of December 31, 2018, 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):                           | Year Ended December 31, |           |              |
|--|-------------------------|-----------|--------------|
|  | 2018                    | 2017      | 2016         |
| Net cash provided by operating activities            | \$ 101,658              | \$ 99,795 | \$ 129,243   |
| Net cash used in investing activities                | (18,562 )               | (128,948) | (86,636 )    |
| Net cash provided by (used in) financing activities  | (66,690 )               | 28,821    | (84,095 )    |
| Effect of exchange rate changes on cash              | (208 )                  | 214       | 78           |
| Net increase (decrease) in cash and cash equivalents | \$ 16,198               | \$ (118 ) | \$ (41,410 ) |

**Operating Activities**

Net cash provided by operating activities totaled \$101.7 million, \$99.8 million, and \$129.2 million for the years ended December 31, 2018, 2017, and 2016, respectively. Our operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable and accrued expenses, accrued payroll and related benefits, and deferred revenues. The volume of services rendered and the related billings and timing of collections on those billings, as well as payments of our accounts payable and salaries, bonuses, and related benefits to employees affect these account balances.

The slight increase in cash provided by operations in 2018 compared to 2017 was primarily attributable to an increase in cash collections from clients, largely offset by increased vendor payments in 2018 compared to 2017.

The decrease in cash provided by operations in 2017 compared to 2016 was primarily attributable to lower net income, the collection of a \$10.0 million settlement receivable in the first quarter of 2016, and a decrease in cash collections from clients, partially offset by decreased vendor and tax payments in 2017 compared to 2016.

**Investing Activities**

Net cash used in investing activities was \$18.6 million, \$128.9 million, and \$86.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

The use of cash in 2018 primarily consisted of \$8.9 million for purchases of property and equipment, primarily related to purchases of computers and network equipment; \$6.1 million for payments related to internally developed software; \$2.3 million for payments related to the divestiture of our Middle East practice within the Business Advisory segment; and \$2.0 million for contributions to our life insurance policies which fund our deferred compensation plan.

The use of cash in 2017 primarily consisted of \$106.9 million for purchases of businesses and \$24.4 million for purchases of property and equipment, primarily related to leasehold improvements and purchase of furniture and fixtures for new office spaces in certain locations.

The use of cash in 2016 primarily consisted of \$69.1 million for purchases of businesses and \$13.9 million for purchases of property and equipment.

We estimate that cash utilized for purchases of property and equipment and software in 2019 will be approximately \$15 million to \$20 million, primarily consisting of leasehold improvements for certain office locations and software development costs.

**Financing Activities**

Net cash used in financing activities was \$66.7 million for the year ended December 31, 2018. During 2018, we borrowed \$204.3 million under our credit facility and made repayments on our credit facility of \$259.8 million. We also paid \$12.0 million to the sellers of certain businesses we acquired for achieving specified financial performance targets in accordance with the related purchase agreements. Of the \$12.0 million, \$7.0 million is classified as a cash outflow from financing activities and represents the amount paid up to the initial fair value of the contingent consideration liability recorded as of the acquisition dates. The remaining \$5.0 million is classified as a cash outflow from operating activities.

Net cash provided by financing activities was \$28.8 million for the year ended December 31, 2017. During 2017, we borrowed \$277.5 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 \$240.7 million.

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Net cash used in financing activities was \$84.1 million for the year ended December 31, 2016. During 2016, we borrowed \$200.0 million under our credit facility, primarily to fund the acquisitions of HSM Consulting and ADI Strategies and our annual performance bonus payment, and we made repayments on our credit facility of \$224.0 million. We also repurchased and retired \$55.3 million of our common stock under our Share Repurchase Program, as discussed below.

### Share Repurchase Program

We currently have a share repurchase program permitting us to repurchase up to \$125 million of our common stock through October 31, 2019 (the "Share Repurchase Program"). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our credit facility, general market and business conditions, and applicable legal requirements. In 2016, we repurchased and retired 982,192 shares for \$55.3 million. No shares were repurchased under this program in 2018 or 2017. As of December 31, 2018, \$35.1 million remains available for share repurchases.

### Financing Arrangements

At December 31, 2018, we had \$250 million principal amount of our 1.25% convertible senior notes outstanding, \$50.0 million outstanding under our senior secured credit facility, and \$4.4 million outstanding under a promissory note, as discussed below.

#### 1.25% Convertible Senior Notes

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

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

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

The carrying amount of our Convertible Notes due 2019 as of December 31, 2018, was \$242.6 million, which represents the \$250.0 million principal amount net of unamortized debt discount and issuance costs, and is included in current maturities of long-term debt on the consolidated balance sheet as of December 31, 2018. The carrying amount of our Convertible Notes due 2019 as of December 31, 2017, was \$233.1 million and was included in long-term debt, net of current portion on the consolidated balance sheet as of December 31, 2017.

For further information, see Note 6 "Financing Arrangements" within the notes to our consolidated financial statements. For a discussion of certain risks and uncertainties related to the Convertible Notes, see Part I—Item 1A. "Risk Factors."

### Senior Secured Credit Facility

The Company has a \$500 million senior secured revolving credit facility, subject to the terms of a Second Amended and Restated Credit Agreement dated as of March 31, 2015, as amended to date (as amended and modified the "Amended Credit Facility"), that becomes due and payable in full upon maturity on March 23, 2023. The Amended Credit Agreement provides the option to increase the revolving credit facility or establish term loan facilities in an aggregate amount of up to \$150 million, subject to customary conditions and the approval of any lender whose commitment would be increased, resulting in a maximum available principal amount under the Amended Credit

Agreement of \$650 million. The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under a prior credit agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, acquisitions of businesses, share repurchases, and general corporate purposes.

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

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LIBOR borrowings, or between 0.25% per annum and 1.00% per annum, in the case of base rate loans, based upon our Consolidated Leverage Ratio at such time.

Amounts borrowed under the Amended Credit Agreement may be prepaid at any time without premium or penalty. We are required to prepay the amounts outstanding under the Amended Credit Agreement in certain circumstances, including a requirement to pay all amounts outstanding 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 3.50 to 1.00 to 4.00 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (defined as the ratio of consolidated EBITDA to interest) of 3.50 to 1.00. Consolidated EBITDA for purposes of the financial covenants is calculated on a continuing operations basis and includes adjustments to add back non-cash goodwill impairment charges, share-based compensation costs, certain non-cash restructuring charges, pro forma historical EBITDA for businesses acquired, and other specified items in accordance with the Amended Credit Agreement. At December 31, 2018, we were in compliance with these financial covenants with a Consolidated Leverage Ratio of 2.83 to 1.00 and a Consolidated Interest Coverage Ratio of 11.03 to 1.00.

The Amended Credit Agreement contains restricted payment provisions, including a potential limit on the amount of dividends. 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 make is limited to an amount up to \$75 million plus 50% of cumulative consolidated net income (as defined in the Amended Credit Agreement) from the closing date of the Amended Credit Agreement plus 50% of the net cash proceeds from equity issuances after the closing date of the Amended Credit Agreement.

Borrowings outstanding under the Amended Credit Agreement at December 31, 2018 totaled \$50.0 million. These borrowings carried a weighted average interest rate of 3.7%, including the impact of the interest rate swap described in Note 11 "Derivative Instruments and Hedging Activity" within the notes to the consolidated financial statements. Borrowings outstanding under the Amended Credit Agreement at December 31, 2017 were \$105.0 million and carried a weighted average interest rate of 3.7%, including the impact of the interest rate swap described in Note 11 "Derivative Instruments and Hedging Activity" within the notes to the consolidated financial statements. The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At December 31, 2018, we had outstanding letters of credit totaling \$1.6 million, which are primarily used as security deposits for our office facilities. As of December 31, 2018, the unused borrowing capacity under the revolving credit facility was \$448.4 million.

For further information, see Note 6 "Financing Arrangements" within the notes to the consolidated financial statements. For a discussion of certain risks and uncertainties related to the Amended Credit Facility, see Part I—Item 1A. "Risk Factors."

#### Promissory Note due 2024

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

plus 1.97% per annum. The obligations under the promissory note are secured pursuant to a Loan and Aircraft Security Agreement with Banc of America Leasing & Capital, LLC, which grants the lender a first priority security interest in the aircraft. At December 31, 2018, the outstanding principal amount of the promissory note was \$4.4 million. As of December 31, 2018, the aircraft had a carrying amount of \$5.8 million. At December 31, 2017, the outstanding principal amount of the promissory note was \$4.9 million, and the aircraft had a carrying amount of \$6.5 million.

For further information, see Note 6 “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

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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**

The following table represents our significant obligations and commitments as of December 31, 2018 and the scheduled years of payments (in thousands).

|   | Total            | Payments Due by Period |                  |                  |                  |
|---|------------------|------------------------|------------------|------------------|------------------|
|   |                  | 2019                   | 2020-2021        | 2022-2023        | Thereafter       |
| Convertible senior notes—principal and interest <sup>(1)</sup>  | 253,125          | \$253,125              | \$ —             | \$ —             | \$ —             |
| Long-term bank borrowings—principal and interest <sup>(2)</sup> | 59,078           | 2,136                  | 4,272            | 52,670           | —                |
| Promissory note—principal and interest <sup>(3)</sup>           | 5,045            | 693                    | 1,362            | 1,327            | 1,663            |
| Operating lease obligations <sup>(4)</sup>                      | 86,521           | 13,701                 | 24,314           | 21,473           | 27,033           |
| Contingent consideration <sup>(5)</sup>                         | 11,441           | 9,991                  | 1,450            | —                | —                |
| Purchase obligations <sup>(6)</sup>                             | 14,479           | 11,032                 | 3,447            | —                | —                |
| Transition tax on accumulated foreign earnings <sup>(7)</sup>   | 568              | 49                     | 99               | 142              | 278              |
| Deferred compensation <sup>(8)</sup>                            | 18,445           |                        |                  |                  |                  |
| Uncertain tax positions <sup>(9)</sup>                          | 1,034            |                        |                  |                  |                  |
| <b>Total contractual obligations</b>                            | <b>\$449,736</b> | <b>\$290,727</b>       | <b>\$ 34,944</b> | <b>\$ 75,612</b> | <b>\$ 28,974</b> |

In September 2014, we issued \$250 million principal of 1.25% convertible senior notes due 2019. We pay cash interest on the outstanding notes at an annual rate of 1.25% semi-annually on April 1 and October 1 of each year (1) until October 1, 2019, at which time we will repay any accrued and unpaid interest and the principal amount of all outstanding notes. We expect to refinance the principal amount of the outstanding notes at maturity with the borrowing capacity available under our revolving credit facility.

The interest payments on long-term bank borrowings are estimated based on the principal amount outstanding and the interest rate in effect as of December 31, 2018. Actual future interest payments will differ due to changes in our borrowings outstanding and the interest rate on those borrowings, as the interest rate varies based on the (2) fluctuations in the variable base rates and the spread we pay over those base rates pursuant to the Amended Credit Agreement. Refer to “Liquidity and Capital Resources” and Note 6 “Financing Arrangements” within the notes to our consolidated financial statements for more information on our outstanding borrowings.

The interest payments on the promissory note are estimated based on the principal amount outstanding, scheduled principal payments, and the interest rate in effect as of December 31, 2018. Actual future interest payments may differ due to changes in the principal amount outstanding and the interest rate on that (3) principal amount, as the interest rate varies based on the fluctuations in the one-month LIBOR rate. Refer to “Liquidity and Capital Resources” and Note 6 “Financing Arrangements” within the notes to our consolidated financial statements for more information on the promissory note.

We lease our facilities under operating lease arrangements expiring on various dates through 2028, with various (4) renewal options. We lease office facilities under non-cancelable operating leases that include fixed or minimum payments plus, in some cases, scheduled base rent increases over the term of the lease.

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 (5) agreements. As of December 31, 2018, the estimated fair value of the contingent consideration liability was \$11.4 million. The maximum amount that may be paid under contingent consideration liabilities existing as of December 31, 2018 is \$41.9 million.

Purchase obligations include agreements to purchase goods or services that are enforceable, are legally binding, (6) and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Purchase obligations do not include agreements that are cancelable without penalty.

As a result of the 2017 Tax Reform, we are required to pay a one-time transition tax on our accumulated foreign (7) earnings as of December 31, 2017, which were primarily generated by our operations in Canada. We have the

option to pay this liability in installments over the next eight years as reflected in the table above, and the payments may be offset with certain foreign tax credits.

(8) Included in deferred compensation and other liabilities on our consolidated balance sheet as of December 31, 2018 is a \$18.4 million obligation for deferred compensation. The specific payment dates for the deferred compensation are unknown; therefore, the related balances have not been reflected in the “Payments Due by Period” section of the table. This deferred compensation liability is funded by corresponding deferred compensation plan assets. Refer to Note 14 “Employee Benefit and Deferred Compensation Plans” within the notes to our consolidated financial statements for more information on our deferred compensation plan.

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Our liabilities for uncertain tax positions are classified as non-current. Included in the balance is \$0.1 million for the accrual of potential payment of interest and penalties. We are unable to reasonably estimate the timing of future (9) payments as it depends on examinations by taxing authorities; as such, the related balance has not been reflected in the “Payments Due by Period” section of the table.

### 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 accounting principles generally accepted in the United States of America (“GAAP”). Our significant accounting policies are discussed in Note 2 “Summary of Significant Accounting Policies,” within the notes to our consolidated financial statements. 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 that 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.

#### Revenue Recognition

On January 1, 2018, we adopted Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (ASC Topic 606), on a modified retrospective basis to all open contracts, as modified, as of that date. Adoption of the new standard resulted in changes to our accounting policy for revenue recognition, most notably for performance-based billing arrangements. Adopting ASC 606 on a modified retrospective basis had no impact on our consolidated financial statements in the prior periods presented. Refer to Note 2 “Summary of Significant Accounting Policies,” within the notes to our consolidated financial statements for additional information on our adoption of ASC 606.

We generate substantially all of our revenues from providing professional services to our clients. We also generate revenues from software licenses; software support, maintenance and subscriptions to our cloud-based analytic tools and solutions; speaking engagements; conferences; and publications. A single contract could include one or multiple performance obligations. For those contracts that have multiple performance obligations, we allocate the total transaction price to each performance obligation based on its relative standalone selling price, which is determined based on our overall pricing objectives, taking into consideration market conditions and other factors.

Revenue is recognized when control of the goods and services provided are transferred to our customers and in an amount that reflects the consideration we expect to be entitled to in exchange for those goods and services using the following steps: 1) identify the contract, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue as or when we satisfy the performance obligations.

We typically satisfy our performance obligations for professional services over time as the related services are provided. The performance obligations related to software support, maintenance and subscriptions to our cloud-based analytic tools and solutions are typically satisfied evenly over the course of the service period. Other performance obligations, such as certain software licenses, speaking engagements, conferences, and publications, are satisfied at a point in time

We generate our revenues 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. We generally recognize revenues under fixed-fee billing arrangements using a proportionate performance approach, which is based on work completed to-date versus our estimates of the total services to be provided under the engagement. Contracts within our Studer Group solution include fixed-fee partner contracts with multiple performance obligations, which primarily consist of coaching services, as well as speaking engagements, conferences, publications and software products (“Partner Contracts”). Revenues for coaching services and software products are generally recognized on a straight-line basis over the length of the contract. All other revenues under Partner Contracts, including speaking engagements, conferences and publications, are recognized at the time the goods or services are provided. Estimates of total engagement revenues and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and reasonably estimable.

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We also generate revenues from 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.

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 arrangements as the related services or publications are provided, using the right to invoice practical expedient which allows us to recognize revenue in the amount that we have a right to invoice based on the number of hours worked and the agreed upon hourly rates or the value of the speaking engagements, conferences or publications purchased by our clients.

In performance-based 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. We recognize revenue under performance-based billing arrangements using the following steps: 1) estimate variable consideration using a probability-weighted assessment of the fees to be earned, 2) apply a constraint to the estimated variable consideration to limit the amount that could be reversed when the uncertainty is resolved (the “constraint”), and 3) recognize revenue of estimated variable consideration, net of the constraint, based on work completed to-date versus our estimates of the total services to be provided under the engagement.

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. These fees are billed in advance and included in deferred revenues until recognized.

Provisions are recorded for the estimated realization adjustments on all engagements, including engagements for which fees are subject to review by the bankruptcy courts.

Expense reimbursements that are billable to clients are included in total revenues and reimbursable expenses. Under fixed-fee billing arrangements, we estimate the total amount of reimbursable expenses to be incurred over the course of the engagement and recognize the estimated amount as revenue 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. Under time-and-expense billing arrangements we recognize reimbursable expenses as revenue as the related services are provided, using the right to invoice practical expedient. Reimbursable expenses are recognized as expenses in the period in which the expense is incurred. Subcontractors that are billed to clients at cost are also included in reimbursable expenses. When billings do not specifically identify reimbursable expenses, we allocate the portion of the billings equivalent to these expenses to reimbursable expenses.

### Allowances for Doubtful Accounts and Unbilled Services

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

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

administrative expenses.

**Business Combinations**

The assets acquired and liabilities assumed in a business combination, including identifiable intangible assets, are recorded at their estimated fair values as of the acquisition date. 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. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates, and assumptions, such as the expected future cash flows to be derived from the intangible assets, discount rates that reflect the risk factors associated with future cash flows, and estimates of useful lives.

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We measure and recognize contingent consideration at fair value as of the acquisition date. We estimate the fair value of contingent consideration based on 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 require the use of significant judgments, estimates, and assumptions, including financial performance projections and discount rates. The fair value of the contingent consideration is reassessed quarterly based on assumptions used in our latest financial projections and input provided by practice leaders and management, with any change in the fair value estimate recorded in earnings in that period. Increases or decreases in the fair value of contingent consideration liabilities resulting from changes in the estimates or assumptions could materially impact the financial statements. See Note 3 "Acquisitions" within the notes to our consolidated financial statements for additional information regarding our acquisitions.

### Carrying Values of Goodwill and Other Intangibles Assets

We test goodwill for impairment, at the reporting unit level, annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of November 30 and monitor for interim triggering events on an ongoing basis. A reporting unit is an operating segment or one level below an operating segment (referred to as a component) to which goodwill is assigned when initially recorded. We assign goodwill to reporting units based on our integration plans and the expected synergies resulting from the acquisition. At the time of our November 30, 2018 annual goodwill impairment test, we had five reporting units with goodwill balances: Healthcare, Education, Business Advisory, Strategy and Innovation, and Life Sciences. The Business Advisory, Strategy and Innovation, and Life Sciences reporting units, along with the Enterprise Solutions and Analytics reporting, which does not have a goodwill balance, make up our Business Advisory operating segment.

Under GAAP, we have the option to first assess qualitative factors to determine whether the existence of current events or circumstances would lead to a determination that it is more likely than not that the fair value of one of our reporting units is greater than its carrying value. If we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying value, no further testing is necessary. However, if we conclude otherwise, then we are required to perform a quantitative impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying value of the reporting unit. If the fair value of the reporting unit is less than its carrying value, a non-cash impairment charge is recorded in an amount equal to that difference with the loss not to exceed the total amount of goodwill allocated to the reporting unit.

We have the option to bypass the qualitative assessment for any reporting unit and proceed directly to performing the quantitative goodwill impairment test.

For reporting units where we perform the quantitative test, we determine the fair value using a combination of the income approach and the market approach. For a company such as ours, the income and market approaches will generally provide the most reliable indications of fair value because the value of such companies is dependent on their ability to generate earnings.

The following is a discussion of our goodwill impairment analysis performed during 2018.

### 2018 Annual Goodwill Impairment Analysis

Pursuant to our policy, we performed our annual goodwill impairment test as of November 30, 2018 on our five reporting units with goodwill balances: Healthcare, Education, Business Advisory, Strategy and Innovation, and Life Sciences. We performed a qualitative assessment over all reporting units to determine if it was more likely than not the respective fair values of these reporting units were less than their carrying amounts, including goodwill.

For our qualitative assessment, we considered the most recent quantitative analysis performed for each reporting unit, which was as of November 30, 2017, including the key assumptions used within that analysis, the indicated fair values, and the amount by which those fair values exceeded their carrying amounts. One of the key assumptions used within the prior quantitative analysis was our internal financial projections; therefore, we considered the actual performance of each reporting unit during 2018 compared to the internal financial projections used, as well as specific outlooks for each reporting unit based on our most recent internal financial projections. We also considered the market-based valuation multiples used in the market approach within our prior quantitative analysis, which were

derived from guideline companies, and noted that the valuation multiples generally increased over the past year. We also reviewed the current carrying value of each reporting unit in comparison to the carrying values as of the prior quantitative analysis. In addition, we considered various factors, including macroeconomic conditions, relevant industry and market trends for each reporting unit, and other entity-specific events, that could indicate a potential change in the fair value of our reporting units or the composition of their carrying values. Based on our assessments, we determined that it was more likely than not that the fair values for each of our reporting units exceeded their respective carrying amounts. As such, the goodwill for our reporting units was not considered impaired as of November 30, 2018, and a quantitative goodwill impairment analysis was not necessary.

The qualitative assessment of our reporting units requires us to make significant judgments, estimates, and assumptions. While we believe that the estimates and assumptions underlying our analysis are reasonable, there is no assurance that the actual future earnings or cash

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flows of our reporting units will be consistent with our projections. We will monitor any changes to our assumptions and will evaluate goodwill as deemed warranted during future periods. Any significant decline in our operations could result in non-cash goodwill impairment charges.

The carrying values of goodwill for each of our reporting units as of December 31, 2018 are as follows (in thousands):

| Reporting Unit                     | Carrying Value<br>of Goodwill |
|------------------------------------|-------------------------------|
| Healthcare                         | \$ 428,729                    |
| Education                          | 102,829                       |
| Business Advisory                  | 16,094                        |
| Strategy and Innovation            | 87,411                        |
| Life Sciences                      | 10,200                        |
| Enterprise Solutions and Analytics | —                             |
| Total                              | \$ 645,263                    |

Intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill. Our intangible assets, net of accumulated amortization, totaled \$47.9 million at December 31, 2018 and primarily consist of customer relationships, trade names, customer contracts, technology and software, non-competition agreements, and publishing content, all of which were acquired through business combinations. We evaluate our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. No impairment charges for intangible assets were recorded in 2018.

**Income Taxes**

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. In determining our provision for income taxes on an interim basis, we estimate our annual effective tax rate based on information available at each interim period. Deferred tax assets and liabilities are recorded for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in management's opinion, it is more likely than not that some portion or the entire deferred tax asset will not be realized.

Our tax positions are subject to income tax audits by federal, state, local, and foreign tax authorities. A tax benefit from an uncertain position may be recognized in the financial statements only if it is more likely than not that the position is sustainable, based on its technical merits. We measure the tax benefit recognized as the largest amount of benefit which is more likely than not to be realized upon settlement with the taxing authority. The estimate of the potential outcome of any uncertain tax issue is subject to management's assessment of relevant risks, facts and circumstances existing at that time.

**NEW ACCOUNTING PRONOUNCEMENTS**

Refer to Note 2 "Summary of Significant Accounting Policies" within the notes to the consolidated financial statements for information on new accounting pronouncements.

**ITEM 7A. 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 \$242.6 million as of December 31, 2018, which represents the liability component of the \$250 million principal balance. The estimated fair value of our Convertible Notes at December 31, 2018 was \$242.9 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 year ended

December 31, 2018, which was \$97.176 per \$100 principal amount. At December 31, 2017, the carrying value of our Convertible Notes was \$233.1 million, and the estimated fair value of our Convertible Notes was \$232.6 million, which was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market as of the last day of trading for the year ended December 31, 2017, which was \$93.031 per \$100 principal amount.

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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 December 31, 2018, we had borrowings outstanding under the credit facility totaling \$50.0 million that carried a weighted average interest rate of 3.7% including the impact of the interest rate swap described below. As of December 31, 2018 these variable rate borrowings were fully hedged against changes in interest rates by the interest rate swap described below, which had a notional amount of \$50.0 million at December 31, 2018. As our variable rate borrowings were fully hedged as of December 31, 2018, a change in the interest rate would have no impact on our consolidated financial statements. At December 31, 2017, our borrowings outstanding under the credit facility totaled \$105.0 million and carried a weighted average interest rate of 3.7%, including the effect of the interest rate swap described below, which had a notional amount of \$50.0 million as of December 31, 2017. A hypothetical 100 basis point change in the interest rate as of December 31, 2017, would have had a \$0.6 million effect on our pretax income, on an annualized basis, including the effect of the interest rate swap.

On June 22, 2017, we entered into a forward interest rate swap agreement effective August 31, 2017 and ending August 31, 2022, with a notional amount of \$50.0 million. We entered into this derivative instrument to hedge against the interest rate risks of our variable-rate borrowings. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 1.900%.

We also have exposure to changes in interest rates associated with the promissory note assumed on June 30, 2017 in connection with our purchase of an aircraft, which has variable interest rates tied to LIBOR. At December 31, 2018, the outstanding principal amount of the promissory note was \$4.4 million and carried an interest rate of 4.3%. A hypothetical 100 basis point change in this interest rate would not have a material effect on our pretax income. At December 31, 2017 the outstanding principal amount of the promissory note was \$4.9 million and carried an interest rate of 3.2%. A hypothetical 100 basis point change in the interest rate as of December 31, 2017 would not have had a material effect on our pretax income.

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

We have a non-interest bearing convertible debt investment in a privately-held company, which we account for as an available-for-sale debt security. As such, the investment is carried at fair value with unrealized holding gains and losses excluded from earnings and reported in other comprehensive income. As of December 31, 2018, the fair value of the investment was \$50.4 million, with a total cost basis of \$27.9 million. At December 31, 2017, the fair value of the investment was \$39.9 million, with a total cost basis of \$27.9 million.

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

The Company's Consolidated Financial Statements and supplementary data begin on page F-1 of this Annual Report on Form 10-K.

**ITEM 9.**

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. 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 December 31, 2018. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2018, 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

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submit under the Exchange Act, and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) for the Company. Internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, and effected by the Company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

(i) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the internal control over financial reporting as of December 31, 2018 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013). As a result of that evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report appearing on page F-2 of this Annual Report on Form 10-K.

**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 December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

**Directors, Executive Officers, Promoters and Control Persons**

The information required by this item is incorporated by reference from portions of our definitive proxy statement for our annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A by April 30, 2019 (the "Proxy Statement") under "Nominees to Board of Directors," "Directors Not Standing For Election" and "Executive Officers." Compliance with Section 16(a) of the Exchange Act

The information required by this item is incorporated by reference from a portion of the Proxy Statement under "Section 16(a) Beneficial Ownership Reporting Compliance."

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## Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics (the “Code”) that is applicable to all of our employees, officers and directors. The Code is available on the Corporate Governance page of our investor relations website at [ir.huronconsultinggroup.com](http://ir.huronconsultinggroup.com). If we make any amendments to or grant any waivers from the Code which are required to be disclosed pursuant to the Securities Exchange Act of 1934, we will make such disclosures on our website.

## Corporate Governance

The information required by this item is incorporated by reference from a portion of the Proxy Statement under “Board Meetings and Committees.”

## ITEM 11. EXECUTIVE COMPENSATION.

## Executive Compensation

The information required by this item is incorporated by reference from a portion of the Proxy Statement under “Executive Compensation.”

## Compensation Committee Interlocks and Insider Participation

The information required by this item is incorporated by reference from a portion of the Proxy Statement under “Compensation Committee Interlocks and Insider Participation.”

## Compensation Committee Report

The information required by this item is incorporated by reference from a portion of the Proxy Statement under “Compensation Committee Report.”

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

## Securities Authorized for Issuance Under Equity Compensation Plans

The following table summarizes information with respect to equity compensation plans approved by shareholders as of December 31, 2018. We do not have equity compensation plans that have not been approved by shareholders.

| Plan Category  | Number of Shares to be Issued Upon Exercise of Outstanding Options | Weighted Average Exercise Price of Outstanding Options | Number of Shares Remaining Available for Future Issuance (excluding shares in 1 <sup>st</sup> column) |
|--|--|--|---|
| Equity compensation plans approved by shareholders:    |  |  |   |
| 2004 Omnibus Stock Plan <sup>(1)</sup>                 | 117,680  | \$ 27.82   | —   |
| 2012 Omnibus Incentive Plan <sup>(2)</sup>             | 36,617   | \$ 39.19   | 813,338   |
| Stock Ownership Participation Program <sup>(3)</sup>   | —  | \$ —   | 88,872  |
| Equity compensation plans not approved by shareholders | N/A  | N/A  | N/A   |
| Total  | 154,297  | \$ 30.52   | 902,210   |

Our 2004 Omnibus Stock Plan was approved by the existing shareholders prior to our initial public offering. Upon (1) adoption of the 2012 Omnibus Incentive Plan, we terminated the 2004 Omnibus Stock Plan with respect to future awards and no further awards will be granted under this plan.

Our 2012 Omnibus Incentive Plan was approved by our shareholders at our annual meeting held on May 1, 2012.

At our annual meeting held on May 2, 2014, our shareholders approved an amendment to the 2012 Omnibus (2) Incentive Plan to increase the number of shares reserved for issuance thereunder by 850,000 shares. At our annual meeting held on May 5, 2017, our shareholders approved an amended and restated 2012 Omnibus Incentive Plan which increased the number of shares authorized for issuance by 804,000 shares.

(3) Our Stock Ownership Participation Program was approved by our shareholders at our annual meeting held on May 1, 2015.

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Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference from a portion of the Proxy Statement under “Stock Ownership of Certain Beneficial Owners and Management.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Certain Relationships and Related Transactions

The information required by this item is incorporated by reference from a portion of the Proxy Statement under “Certain Relationships and Related Transactions.”

Director Independence

The information required by this item is incorporated by reference from portions of the Proxy Statement under “Nominees to Board of Directors,” “Directors Not Standing For Election,” and “Board Meetings and Committees.”

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item is incorporated by reference from a portion of the Proxy Statement under “Audit and Non-Audit Fees.”

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## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Documents filed as part of this Annual Report on Form 10-K.

1. Financial Statements—Our independent registered public accounting firm’s report and our Consolidated Financial Statements are listed below and begin on page F-1 of this Form 10-K.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations and Other Comprehensive Income

Consolidated Statements of Stockholders’ Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

2. Financial Statement Schedules—The financial statement schedules required by this item are included in the Consolidated Financial Statements and accompanying notes.

3. Exhibit Index

| Exhibit Number | Exhibit Description  | Filed herewith | Furnished herewith | Incorporated by Reference Form | Period Ending | Exhibit | Filing Date |
|----------------|--|----------------|--------------------|--------------------------------|---------------|---------|-------------|
| 3.1            | <u>Third Amended and Restated Certificate of Incorporation of Huron Consulting Group Inc.</u>  |                |                    | 10-K                           | 12/31/2004    | 3.1     | 2/16/2005   |
| 3.2            | <u>Amended and Restated Bylaws of Huron Consulting Group Inc.</u>  |                |                    | 8-K                            |               | 3.1     | 10/28/2015  |
| 4.1            | <u>Specimen Stock Certificate.</u>   |                |                    | S-1<br>(File No. 333-115434)   |               | 4.1     | 10/5/2004   |
| 4.2            | <u>Indenture (including Form of Note) with respect to the Company’s 1.25% Convertible Senior Notes due 2019, dated as of September 10, 2014, between Huron Consulting Group Inc. and U.S. Bank National Association, as trustee.</u> |                |                    | 8-K                            |               | 4.1     | 9/16/2014   |
| 10.1           | <u>Office Lease, dated December 2003, between Union Tower, LLC and Huron Consulting Services LLC (formerly known as Huron Consulting Group LLC).</u>   |                |                    | S-1<br>(File No. 333-115434)   |               | 10.1    | 10/5/2004   |
| 10.2*          | <u>Amended and Restated Huron Consulting Group Inc. 2004 Omnibus Stock Plan.</u>   |                |                    | S-8                            |               | 10.1    | 5/5/2010    |
| 10.3*          | <u>Huron Consulting Group Inc. Deferred Compensation Plan as Amended and Restated effective January 1, 2009.</u>   |                |                    | 10-K                           | 12/31/2008    | 10.12   | 2/24/2009   |
| 10.4*          | <u>Senior Management Agreement by and between Huron Consulting Group Inc. and John D. Kelly.</u>   |                |                    | 8-K                            |               | 10.1    | 1/6/2017    |
| 10.5*          | <u>Amended and Restated Senior Management Agreement by and between Huron</u>   |                |                    | 8-K                            |               | 10.2    | 1/6/2017    |

|       |  |      |            |                 |
|-------|--|------|------------|-----------------|
| 10.6* | <u>Consulting Group Inc. and James H. Roth. Senior Management Agreement by and between Huron Consulting Group Inc. and C. Mark Hussey.</u> | 8-K  | 10.3       | 1/6/2017        |
| 10.7* | <u>Senior Management Agreement by and between Huron Consulting Group Inc. and Diane E. Ratekin.</u>  | 8-K  | 10.4       | 1/6/2017        |
| 10.8  | <u>First Amendment to Lease by and between Huron Consulting Services LLC and Union Tower, LLC, dated August 23, 2004.</u>                  | 10-K | 12/31/2012 | 10.17 2/21/2013 |

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| Exhibit Number | Exhibit Description   | Filed herewith | Furnished herewith | Incorporated by Reference |                     |
|----------------|---|----------------|--------------------|---------------------------|---------------------|
|                |   |                |                    | Form Period Ending        | Exhibit Filing Date |
| 10.9           | <u>Second Amendment to Lease by and between Huron Consulting Services LLC and Union Tower, LLC, dated March 14, 2007.</u>   |                |                    | 10-K 12/31/2012           | 10.18 2/21/2013     |
| 10.10          | <u>Third Amendment to Lease by and between Huron Consulting Services LLC and Union Tower, LLC, dated April 2, 2010.</u>   |                |                    | 10-K 12/31/2012           | 10.19 2/21/2013     |
| 10.11          | <u>Fourth Amendment to Lease by and between Huron Consulting Services LLC and Union Tower, LLC, dated December 31, 2012.</u>  |                |                    | 8-K                       | 10.1 1/4/2013       |
| 10.12*         | <u>Form of the Huron Consulting Group Inc. 2012 Omnibus Incentive Plan Restricted Stock Agreement. Base Convertible Bond Hedge Transaction</u>  |                |                    | 10-K 12/31/2012           | 10.20 2/21/2013     |
| 10.13          | <u>Confirmation, dated as of September 4, 2014, by and between Huron Consulting Group Inc. and Bank of America, N.A. Base Convertible Bond Hedge Transaction</u>  |                |                    | 8-K                       | 10.2 9/5/2014       |
| 10.14          | <u>Confirmation, dated as of September 4, 2014, by and between Huron Consulting Group Inc. and J.P. Morgan Securities LLC, as an agent for JPMorgan Chase Bank, National Association, London Branch. Base Issuer Warrant Transaction Confirmation, dated</u>  |                |                    | 8-K                       | 10.3 9/5/2014       |
| 10.15          | <u>as of September 4, 2014, by and between Huron Consulting Group Inc. and Bank of America, N.A. Base Issuer Warrant Transaction Confirmation, dated</u>  |                |                    | 8-K                       | 10.4 9/5/2014       |
| 10.16          | <u>as of September 4, 2014, by and between Huron Consulting Group Inc. and J.P. Morgan Securities LLC, as an agent for JPMorgan Chase Bank, National Association, London Branch. Additional Convertible Bond Hedge Transaction</u>                            |                |                    | 8-K                       | 10.5 9/5/2014       |
| 10.17          | <u>Confirmation, dated as of September 10, 2014, by and between Huron Consulting Group Inc. and Bank of America, N.A. Additional Convertible Bond Hedge Transaction</u>   |                |                    | 8-K                       | 10.1 9/16/2014      |
| 10.18          | <u>Confirmation, dated as of September 10, 2014, by and between Huron Consulting Group Inc. and J.P. Morgan Securities LLC, as an agent for JPMorgan Chase Bank, National Association, London Branch. Additional Issuer Warrant Transaction Confirmation,</u> |                |                    | 8-K                       | 10.2 9/16/2014      |
| 10.19          | <u>dated as of September 10, 2014, by and between Huron Consulting Group Inc. and Bank of America, N.A.</u>   |                |                    | 8-K                       | 10.3 9/16/2014      |
| 10.20          | <u>Additional Issuer Warrant Transaction Confirmation, dated as of September 10, 2014, by and between Huron Consulting Group Inc. and J.P. Morgan Securities LLC, as an agent for JPMorgan Chase</u>  |                |                    | 8-K                       | 10.4 9/16/2014      |

Bank, National Association, London Branch.

Form of the Huron Consulting Group Inc. 2012

10.21\* Omnibus Incentive Plan Restricted Stock Agreement 10-K 12/31/2014 10.31 2/24/2015  
(Stock Ownership Participation Program).

Form of the Huron Consulting Group Inc. 2012

10.22\* Omnibus Incentive Plan Performance Stock Unit 10-K 12/31/2014 10.32 2/24/2015  
Agreement.

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| Exhibit Number | Exhibit Description  | Filed herewith | Furnished herewith | Incorporated by Reference |               | Filing Date          |
|----------------|--|----------------|--------------------|---------------------------|---------------|----------------------|
|                |  |                |                    | Form                      | Period Ending |                      |
| 10.23*         | <u>Form of the Huron Consulting Group Inc. 2012 Omnibus Incentive Plan Stock Option Agreement.</u>   |                |                    | 10-K                      | 12/31/2014    | 10.33 2/24/2015      |
| 10.24*         | <u>Form of the Huron Consulting Group Inc. 2012 Omnibus Incentive Plan NEO Performance Stock Unit Agreement.</u>   |                |                    | 10-K                      | 12/31/2014    | 10.34 2/24/2015      |
| 10.25          | <u>Second Amended and Restated Credit Agreement, dated as of March 31, 2015, among Huron Consulting Group Inc., as Borrower, certain subsidiaries as Guarantors, the Lenders Party Hereto and Bank of America, N.A., as Administrative Agent and Collateral Agent, JPMorgan Chase Bank, N.A., as Syndication Agent, PNC Bank, Bank of Montreal and Key Bank National Association as Co-Documentation Agents, and Merrill Lynch, Pierce, Fenner &amp; Smith Incorporated and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Book Managers.</u> |                |                    | 8-K                       |               | 10.1 4/2/2015        |
| 10.26          | <u>Second Amended and Restated Security Agreement, dated as of March 31, 2015.</u>   |                |                    | 8-K                       |               | 10.2 4/2/2015        |
| 10.27          | <u>Second Amended and Restated Pledge Agreement, dated as of March 31, 2015.</u>   |                |                    | 8-K                       |               | 10.3 4/2/2015        |
| 10.28*         | <u>Huron Consulting Group Inc. Stock Ownership Participation Program.</u>  |                |                    | DEF 14A                   |               | Appendix A 3/20/2015 |
| 10.29*         | <u>Huron Consulting Group Inc. 2012 Omnibus Incentive Plan, as amended and restated effective May 1, 2017.</u>   |                |                    | DEF 14A                   |               | Appendix A 3/27/2017 |
| 10.30          | <u>Amendment No. 1 of the Second Amended and Restated 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.</u>  |                |                    | 8-K                       |               | 10.1 3/6/2017        |
| 10.31          | <u>Amendment No. 2 of the Second Amended and Restated Credit Agreement, dated as of October 24, 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.</u>   |                |                    | 10-Q                      | 9/30/2017     | 10.1 11/1/2017       |
| 10.32          | <u>Amendment No. 3 of the Credit Agreement, dated as of March 23, 2018, by and among Huron Consulting Group Inc., as Borrower, certain subsidiaries, as Guarantors, and Bank of America,</u>   |                |                    | 8-K                       |               | 10.1 3/29/2018       |

N.A., as Administrative Agent for and on behalf of  
the Lenders.

- |      |  |   |
|------|--|---|
| 21.1 | <u>List of Subsidiaries of Huron Consulting Group<br/>Inc.</u>   | X |
| 23.1 | <u>Consent of PricewaterhouseCoopers LLP.<br/>Certification of the Chief Executive Officer.</u>                            | X |
| 31.1 | <u>pursuant to Rule 13a-14(a)/15d-14(a), as adopted<br/>pursuant to Section 302 of the Sarbanes-Oxley Act<br/>of 2002.</u> | X |

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| Exhibit Number | Exhibit Description  | Filed herewith | Furnished herewith | Incorporated by Reference Form | Period Ending | Exhibit Filing Date |
|----------------|--|----------------|--------------------|--------------------------------|---------------|---------------------|
| 31.2           | <u>Certification of the Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> | X              |                    |                                |               |                     |
| 32.1           | <u>Certification of the Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>   |                | X                  |                                |               |                     |
| 32.2           | <u>Certification of the Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>   |                | X                  |                                |               |                     |
| 101.INS        | XBRL Instance Document.  | X              |                    |                                |               |                     |
| 101.SCH        | XBRL Taxonomy Extension Schema Document.   | X              |                    |                                |               |                     |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document.   | X              |                    |                                |               |                     |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document.   | X              |                    |                                |               |                     |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document.  | X              |                    |                                |               |                     |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document.  | X              |                    |                                |               |                     |

\* Indicates the exhibit is a management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

| Signature                          | Title                                | Date      |
|------------------------------------|--------------------------------------|-----------|
| /s/ JAMES H. ROTH<br>James H. Roth | Chief Executive Officer and Director | 2/26/2019 |

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints James H. Roth, John D. Kelly, and Diane Ratekin, and each of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all and any other regulatory authority, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

| Signature                                       | Title  | Date      |
|---|--|-----------|
| /s/ JAMES H. ROTH<br>James H. Roth              | Chief Executive Officer and Director<br>(Principal Executive Officer)                            | 2/26/2019 |
| /s/ JOHN F.<br>MCCARTNEY<br>John F. McCartney   | Non-Executive Chairman of the Board  | 2/26/2019 |
| /s/ GEORGE E.<br>MASSARO<br>George E. Massaro   | Vice Chairman of the Board   | 2/26/2019 |
| /s/ JOHN D. KELLY<br>John D. Kelly              | Executive Vice President, Chief Financial Officer and Treasurer<br>(Principal Financial Officer) | 2/26/2019 |
| /s/ ELLEN P. WONG<br>Ellen P. Wong              | Chief Accounting Officer (Principal Accounting Officer)  | 2/26/2019 |
| /s/ JAMES D. EDWARDS<br>James D. Edwards        | Director   | 2/26/2019 |
| /s/ H. EUGENE<br>LOCKHART<br>H. Eugene Lockhart | Director   | 2/26/2019 |

|                                      |          |           |
|--------------------------------------|----------|-----------|
| /s/ JOHN S. MOODY<br>John S. Moody   | Director | 2/26/2019 |
| /s/ HUGH E. SAWYER<br>Hugh E. Sawyer | Director | 2/26/2019 |
| /s/ DEBRA ZUMWALT<br>Debra Zumwalt   | Director | 2/26/2019 |

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HURON CONSULTING GROUP INC.  
CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Huron Consulting Group Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Huron Consulting Group Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statement of operations and other comprehensive income (loss), statement of stockholders’ equity and statement of cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and December 31, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers as of January 1, 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that

transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
Chicago, Illinois  
February 26, 2019

We have served as the Company's auditor since 2002.

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

|   | December<br>31, 2018 | December<br>31, 2017 |
|---|----------------------|----------------------|
| Assets  |                      |                      |
| Current assets:   |                      |                      |
| Cash and cash equivalents   | \$33,107             | \$16,909             |
| Receivables from clients, net   | 109,677              | 101,778              |
| Unbilled services, net  | 69,613               | 57,618               |
| Income tax receivable   | 6,612                | 4,039                |
| Prepaid expenses and other current assets   | 13,922               | 10,951               |
| Total current assets  | 232,931              | 191,295              |
| Property and equipment, net   | 40,374               | 45,541               |
| Deferred income taxes, net  | 2,153                | 16,752               |
| Long-term investment  | 50,429               | 39,904               |
| Other non-current assets  | 30,525               | 25,375               |
| Intangible assets, net  | 47,857               | 72,311               |
| Goodwill  | 645,263              | 645,750              |
| Total assets  | \$1,049,532          | \$1,036,928          |
| Liabilities and stockholders' equity  |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$10,020             | \$9,194              |
| Accrued expenses and other current liabilities  | 17,207               | 19,643               |
| Accrued payroll and related benefits  | 109,825              | 73,698               |
| Accrued contingent consideration for business acquisitions  | 9,991                | 8,515                |
| Current maturities of long-term debt  | 243,132              | 501                  |
| Deferred revenues   | 28,130               | 27,916               |
| Total current liabilities   | 418,305              | 139,467              |
| Non-current liabilities:  |                      |                      |
| Deferred compensation and other liabilities   | 20,875               | 20,895               |
| Accrued contingent consideration for business acquisitions, net of current portion  | 1,450                | 14,313               |
| Long-term debt, net of current portion  | 53,853               | 342,507              |
| Deferred lease incentives   | 13,693               | 15,333               |
| Deferred income taxes, net  | 732                  | 1,097                |
| Total non-current liabilities   | 90,603               | 394,145              |
| Commitments and contingencies   |                      |                      |
| Stockholders' equity  |                      |                      |
| Common stock; \$0.01 par value; 500,000,000 shares authorized; 25,114,739 and 24,560,468 shares issued at December 31, 2018 and December 31, 2017, respectively | 244                  | 241                  |
| Treasury stock, at cost, 2,568,288 and 2,443,577 shares at December 31, 2018 and December 31, 2017, respectively  | (124,794 )           | (121,994 )           |
| Additional paid-in capital  | 452,573              | 434,256              |
| Retained earnings   | 196,106              | 180,443              |
| Accumulated other comprehensive income  | 16,495               | 10,370               |
| Total stockholders' equity  | 540,624              | 503,316              |
| Total liabilities and stockholders' equity  | \$1,049,532          | \$1,036,928          |

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

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

|  | Year Ended December 31, |             |           |
|--|-------------------------|-------------|-----------|
|  | 2018                    | 2017        | 2016      |
| Revenues and reimbursable expenses:  |                         |             |           |
| Revenues   | \$795,125               | \$732,570   | \$726,272 |
| Reimbursable expenses  | 82,874                  | 75,175      | 71,712    |
| Total revenues and reimbursable expenses   | 877,999                 | 807,745     | 797,984   |
| Direct costs and reimbursable expenses (exclusive of depreciation and amortization shown in operating expenses): |                         |             |           |
| Direct costs   | 521,537                 | 454,806     | 437,556   |
| Amortization of intangible assets and software development costs   | 4,247                   | 10,932      | 15,140    |
| Reimbursable expenses  | 82,923                  | 75,436      | 71,749    |
| Total direct costs and reimbursable expenses   | 608,707                 | 541,174     | 524,445   |
| Operating expenses and other losses (gains), net:  |                         |             |           |
| Selling, general and administrative expenses   | 180,983                 | 175,364     | 160,204   |
| Restructuring charges  | 3,657                   | 6,246       | 9,592     |
| Other losses (gains), net  | (2,019)                 | 1,111       | (1,990)   |
| Depreciation and amortization  | 34,575                  | 38,213      | 31,499    |
| Goodwill impairment charges  | —                       | 253,093     | —         |
| Total operating expenses and other losses (gains), net   | 217,196                 | 474,027     | 199,305   |
| Operating income (loss)  | 52,096                  | (207,456)   | 74,234    |
| Other income (expense), net:   |                         |             |           |
| Interest expense, net of interest income   | (19,013)                | (18,613)    | (16,274)  |
| Other income (expense), net  | (7,862)                 | 3,565       | 1,197     |
| Total other expense, net   | (26,875)                | (15,048)    | (15,077)  |
| Income (loss) from continuing operations before taxes  | 25,221                  | (222,504)   | 59,157    |
| Income tax expense (benefit)   | 11,277                  | (51,999)    | 19,677    |
| Net income (loss) from continuing operations   | 13,944                  | (170,505)   | 39,480    |
| Income (loss) from discontinued operations, net of tax   | (298)                   | 388         | (1,863)   |
| Net income (loss)  | \$13,646                | \$(170,117) | \$37,617  |
| Net earnings (loss) per basic share:   |                         |             |           |
| Net income (loss) from continuing operations   | \$0.64                  | \$(7.95)    | \$1.87    |
| Income (loss) from discontinued operations, net of tax   | (0.01)                  | 0.02        | (0.09)    |
| Net income (loss)  | \$0.63                  | \$(7.93)    | \$1.78    |
| Net earnings (loss) per diluted share:   |                         |             |           |
| Net income (loss) from continuing operations   | \$0.63                  | \$(7.95)    | \$1.84    |
| Income (loss) from discontinued operations, net of tax   | (0.01)                  | 0.02        | (0.08)    |
| Net income (loss)  | \$0.62                  | \$(7.93)    | \$1.76    |
| Weighted average shares used in calculating earnings per share:  |                         |             |           |
| Basic  | 21,706                  | 21,439      | 21,084    |
| Diluted  | 22,058                  | 21,439      | 21,424    |
| Comprehensive income (loss):   |                         |             |           |
| Net income (loss)  | \$13,646                | \$(170,117) | \$37,617  |
| Foreign currency translation adjustments, net of tax   | (1,814)                 | 1,602       | 64        |
| Unrealized gain (loss) on investment, net of tax   | 7,772                   | 4,724       | (97)      |

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|   |          |             |          |
|---|----------|-------------|----------|
| Unrealized gain (loss) on cash flow hedging instruments, net of tax | 167      | 429         | 63       |
| Other comprehensive income  | 6,125    | 6,755       | 30       |
| Comprehensive income (loss)   | \$19,771 | \$(163,362) | \$37,647 |

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

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

|   | Common Stock |        | Treasury Stock |             | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Stockholders'<br>Equity |
|---|--------------|--------|----------------|-------------|----------------------------------|----------------------|---|-------------------------|
|   | Shares       | Amount | Shares         | Amount      |                                  |                      |   |                         |
| Balance at<br>December 31, 2015                         | 24,065,154   | \$ 241 | (2,262,080)    | \$(103,734) | \$ 438,367                       | \$ 313,866           | \$ 3,585  | \$ 652,325              |
| Comprehensive<br>income                                 |              |        |                |             |                                  | 37,617               | 30  | 37,647                  |
| Issuance of common<br>stock in connection<br>with:      |              |        |                |             |                                  |                      |   |                         |
| Restricted stock<br>awards, net of<br>cancellations     | 390,348      | 4      | (70,419)       | (4,508)     | 4,504                            |                      |   | —                       |
| Exercise of stock<br>options                            | 4,706        |        |                |             | 123                              |                      |   | 123                     |
| Share-based<br>compensation                             |              |        |                |             | 17,929                           |                      |   | 17,929                  |
| Shares redeemed for<br>employee tax<br>withholdings     |              |        | (88,414)       | (4,953)     |                                  |                      |   | (4,953)                 |
| Income tax benefit on<br>share-based<br>compensation    |              |        |                |             | 227                              |                      |   | 227                     |
| Share repurchases                                       | (982,192)    | (10)   |                |             | (55,255)                         |                      |   | (55,265)                |
| Balance at<br>December 31, 2016                         | 23,478,016   | \$ 235 | (2,420,913)    | \$(113,195) | \$ 405,895                       | \$ 351,483           | \$ 3,615  | \$ 648,033              |
| Comprehensive<br>income                                 |              |        |                |             |                                  | (170,117)            | 6,755   | (163,362)               |
| Issuance of common<br>stock in connection<br>with:      |              |        |                |             |                                  |                      |   |                         |
| Restricted stock<br>awards, net of<br>cancellations     | 399,248      | 4      | (58,211)       | (3,953)     | 3,949                            |                      |   | —                       |
| Business acquisition                                    | 221,558      | 2      |                |             | 9,558                            |                      |   | 9,560                   |
| Share-based<br>compensation                             |              |        |                |             | 14,419                           |                      |   | 14,419                  |
| Shares redeemed for<br>employee tax<br>withholdings     |              |        | (112,011)      | (4,846)     |                                  |                      |   | (4,846)                 |
| Cumulative-effect<br>adjustment from<br>adoption of ASU |              |        |                |             | 435                              | (435)                |   | —                       |

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|   |            |        |             |             |           |           |           |            |
|---|------------|--------|-------------|-------------|-----------|-----------|-----------|------------|
| 2016-09<br>Cumulative-effect<br>adjustment from<br>adoption of ASU<br>2018-02 |            |        |             |             |           | (488 )    |           | (488 )     |
| Balance at<br>December 31, 2017   | 24,098,822 | \$ 241 | (2,591,135) | \$(121,994) | \$434,256 | \$180,443 | \$ 10,370 | \$ 503,316 |
| Comprehensive<br>income   |            |        |             |             |           | 13,646    | 6,125     | 19,771     |
| Issuance of common<br>stock in connection<br>with:                            |            |        |             |             |           |           |           |            |
| Restricted stock<br>awards, net of<br>cancellations                           | 279,430    | 3      | 5,986       | 387         | (390 )    |           |           | —          |
| Exercise of stock<br>options  | 40,000     | —      |             |             | 937       |           |           | 937        |
| Share-based<br>compensation   |            |        |             |             | 17,770    |           |           | 17,770     |
| Shares redeemed for<br>employee tax<br>withholdings                           |            |        | (86,813 )   | (3,187 )    |           |           |           | (3,187 )   |
| Cumulative-effect<br>adjustment from<br>adoption of ASU<br>2014-09            |            |        |             |             |           | 2,017     |           | 2,017      |
| Balance at<br>December 31, 2018   | 24,418,252 | \$ 244 | (2,671,962) | \$(124,794) | \$452,573 | \$196,106 | \$ 16,495 | \$ 540,624 |

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

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

|  | Year Ended December 31, |             |           |
|--|-------------------------|-------------|-----------|
|  | 2018                    | 2017        | 2016      |
| Cash flows from operating activities:  |                         |             |           |
| Net income (loss)  | \$13,646                | \$(170,117) | \$37,617  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                         |             |           |
| Depreciation and amortization  | 39,311                  | 50,089      | 46,816    |
| Share-based compensation   | 18,818                  | 14,838      | 16,577    |
| Amortization of debt discount and issuance costs   | 10,313                  | 10,203      | 9,609     |
| Goodwill impairment charges  | —                       | 253,093     | —         |
| Allowances for doubtful accounts and unbilled services                                   | 657                     | 3,217       | 4,250     |
| Deferred income taxes  | 10,717                  | (53,753)    | 1,189     |
| Loss (gain) on sale of businesses  | 5,807                   | (931)       | —         |
| Change in fair value of contingent consideration liabilities                             | 381                     | 1,111       | (1,990)   |
| Changes in operating assets and liabilities, net of acquisitions and divestitures:       |                         |             |           |
| (Increase) decrease in receivables from clients  | (10,509)                | 1,650       | 1,440     |
| (Increase) decrease in unbilled services   | (11,094)                | (4,332)     | 2,443     |
| (Increase) decrease in current income tax receivable / payable, net                      | (2,607)                 | 210         | (4,410)   |
| (Increase) decrease in other assets  | (1,361)                 | (366)       | 11,904    |
| Increase (decrease) in accounts payable and accrued liabilities                          | (8,212)                 | 3,732       | (3,144)   |
| Increase (decrease) in accrued payroll and related benefits                              | 35,481                  | (10,966)    | 3,044     |
| Increase (decrease) in deferred revenues   | 310                     | 2,117       | 3,898     |
| Net cash provided by operating activities  | 101,658                 | 99,795      | 129,243   |
| Cash flows from investing activities:  |                         |             |           |
| Purchases of property and equipment, net   | (8,936)                 | (24,402)    | (13,936)  |
| Investment in life insurance policies  | (2,037)                 | (1,826)     | (2,035)   |
| Distributions from life insurance policies   | —                       | 2,889       | —         |
| Purchases of businesses, net of cash acquired  | (215)                   | (106,915)   | (69,133)  |
| Capitalization of internally developed software  | (6,069)                 | (1,370)     | (1,086)   |
| Proceeds from note receivable  | 1,040                   | 1,177       | —         |
| Divestitures of businesses, net of cash sold   | (2,345)                 | 1,499       | (446)     |
| Net cash used in investing activities  | (18,562)                | (128,948)   | (86,636)  |
| Cash flows from financing activities:  |                         |             |           |
| Proceeds from exercises of stock options   | 937                     | —           | 123       |
| Shares redeemed for employee tax withholdings  | (3,187)                 | (4,846)     | (4,953)   |
| Share repurchases  | —                       | —           | (55,265)  |
| Proceeds from borrowings under credit facility   | 204,300                 | 277,500     | 200,000   |
| Repayments of debt   | (259,801)               | (240,745)   | (224,000) |
| Payments for debt issuance costs   | (1,385)                 | (408)       | —         |
| Deferred acquisition payments  | (7,554)                 | (2,680)     | —         |
| Net cash provided by (used in) financing activities                                      | (66,690)                | 28,821      | (84,095)  |
| Effect of exchange rate changes on cash  | (208)                   | 214         | 78        |
| Net increase (decrease) in cash and cash equivalents                                     | 16,198                  | (118)       | (41,410)  |
| Cash and cash equivalents at beginning of the period                                     | 16,909                  | 17,027      | 58,437    |
| Cash and cash equivalents at end of the period   | \$33,107                | \$16,909    | \$17,027  |

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Supplemental disclosure of cash flow information:

Non-cash investing and financing activities:

|  |         |          |          |
|--|---------|----------|----------|
| Property & equipment expenditures and capitalized software included in accounts payable and accrued expenses | \$2,358 | \$1,567  | \$4,461  |
| Promissory note assumed for purchase of property and equipment   | \$—     | \$5,113  | \$—      |
| Contingent consideration related to business acquisitions  | \$212   | \$15,489 | \$8,754  |
| Common stock issued related to business acquisitions   | \$—     | \$9,560  | \$—      |
| Cash paid during the year for:   |         |          |          |
| Interest   | \$8,887 | \$9,068  | \$6,470  |
| Income taxes   | \$3,349 | \$5,399  | \$24,584 |

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

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements reflect the financial position at December 31, 2018 and 2017, and the results of operations and cash flows for the years ended December 31, 2018, 2017, and 2016.

The consolidated financial statements include the accounts of Huron Consulting Group Inc. and its subsidiaries, all of which are wholly-owned. All intercompany balances and transactions have been eliminated in consolidation. Certain amounts reported in previous years have been reclassified to conform to the 2018 presentation.

During the second quarter of 2018, we identified an error on our previously reported consolidated balance sheet and statement of operations as of and for the three months ended March 31, 2018 which increased revenues and unbilled services, net by \$0.6 million and net income by \$0.4 million. This error related to the application of the proportionate performance approach for recognizing revenues for fixed-fee engagements in our Middle East practice within the Business Advisory segment. This error was corrected in the second quarter of 2018 by decreasing revenues and unbilled services, net by \$0.6 million, and resulted in a \$0.4 million decrease to net income in the second quarter of 2018. This error, which was not material to the first or second quarter of 2018 results, had no impact on our consolidated balance sheet or statement of operations as of and for the six months ended June 30, 2018.

On January 1, 2018, we adopted Accounting Standard Update ("ASU") 2014-09, Revenue from Contracts with Customers, on a modified retrospective basis. For additional information on the adoption of ASU 2014-09, refer to our revenue recognition policy and new accounting pronouncements below.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Actual results may differ from these estimates and assumptions.

Revenue Recognition

We generate substantially all of our revenues from providing professional services to our clients. We also generate revenues from software licenses; software support, maintenance and subscriptions to our cloud-based analytic tools and solutions; speaking engagements; conferences; and publications. A single contract could include one or multiple performance obligations. For those contracts that have multiple performance obligations, we allocate the total transaction price to each performance obligation based on its relative standalone selling price, which is determined based on our overall pricing objectives, taking into consideration market conditions and other factors.

Revenue is recognized when control of the goods and services provided are transferred to our customers and in an amount that reflects the consideration we expect to be entitled to in exchange for those goods and services using the following steps: 1) identify the contract, 2) identify the performance obligations, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and 5) recognize revenue as or when we satisfy the performance obligations.

We typically satisfy our performance obligations for professional services over time as the related services are provided. The performance obligations related to software support, maintenance and subscriptions to our cloud-based analytic tools and solutions are typically satisfied evenly over the course of the service period. Other performance obligations, such as certain software licenses, speaking engagements, conferences, and publications, are satisfied at a

point in time

We generate our revenues 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. 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

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

total services to be provided under the engagement. Contracts within our Studer Group solution include fixed-fee partner contracts with multiple performance obligations, which primarily consist of coaching services, as well as speaking engagements, conferences, publications and software products (“Partner Contracts”). Revenues for coaching services and software products are generally recognized on a straight-line basis over the length of the contract. All other revenues under Partner Contracts, including speaking engagements, conferences and publications, are recognized at the time the goods or services are provided. Estimates of total engagement revenues and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and reasonably estimable.

We also generate revenues from 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.

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 arrangements as the related services or publications are provided, using the right to invoice practical expedient which allows us to recognize revenue in the amount that we have a right to invoice based on the number of hours worked and the agreed upon hourly rates or the value of the speaking engagements, conferences or publications purchased by our clients.

In performance-based 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. We recognize revenue under performance-based billing arrangements using the following steps: 1) estimate variable consideration using a probability-weighted assessment of the fees to be earned, 2) apply a constraint to the estimated variable consideration to limit the amount that could be reversed when the uncertainty is resolved (the “constraint”), and 3) recognize revenue of estimated variable consideration, net of the constraint, based on work completed to-date versus our estimates of the total services to be provided under the engagement.

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. These fees are billed in advance and included in deferred revenues until recognized.

Provisions are recorded for the estimated realization adjustments on all engagements, including engagements for which fees are subject to review by the bankruptcy courts.

Expense reimbursements that are billable to clients are included in total revenues and reimbursable expenses. Under fixed-fee billing arrangements, we estimate the total amount of reimbursable expenses to be incurred over the course of the engagement and recognize the estimated amount as revenue 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. Under time-and-expense billing arrangements we recognize reimbursable expenses as revenue as the related services are provided, using the right to invoice practical expedient. Reimbursable expenses are recognized as expenses in the period in which the expense is incurred. Subcontractors that are billed to clients at cost are also included in reimbursable expenses. When billings do not specifically identify reimbursable expenses, we allocate the portion of the billings equivalent to these expenses to reimbursable expenses.

The payment terms and conditions in our customer contracts vary. Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or deferred revenues in the accompanying consolidated balance sheets. Revenues recognized for services performed but not yet billed to clients are recorded as unbilled services. Revenues recognized, but for which we are not yet entitled to bill because certain events, such as the completion of the measurement period or client approval, must occur, are recorded as contract assets and included within unbilled services. Client prepayments and retainers are classified as deferred revenues and recognized over future periods as earned in accordance with the applicable engagement agreement.

#### Capitalized Sales Commissions

Sales commissions earned by our sales professionals are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions with an expected amortization period greater than one year are deferred and amortized on a straight-line basis

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(Tabular amounts in thousands, except per share amounts)

over the period of the associated contract. We elected to apply the practical expedient to expense sales commissions as incurred when the expected amortization period is one year or less. Amortization expense is recorded to direct costs. The amount of capitalized sales commissions amortized during the year ended December 31, 2018 was \$0.2 million. Unamortized sales commissions were \$0.4 million as of December 31, 2018.

**Allowances for Doubtful Accounts and Unbilled Services**

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

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

**Direct Costs and Reimbursable Expenses**

Direct costs and reimbursable expenses consist primarily of revenue-generating employee compensation and their related benefits and share-based compensation costs, as well as commissions, the cost of outside consultants or subcontractors assigned to revenue-generating activities, technology costs, other third-party costs directly attributable to our revenue-generating activities, and direct expenses to be reimbursed by clients. Direct costs and reimbursable expenses incurred on engagements are expensed in the period incurred.

**Cash and Cash Equivalents**

We consider all highly liquid investments, including overnight investments and commercial paper, with original maturities of three months or less to be cash equivalents.

**Concentrations of Credit Risk**

To the extent receivables from clients become delinquent, collection activities commence. No single client balance is considered large enough to pose a material credit risk. The allowances for doubtful accounts and unbilled services are based upon the expected ability to collect accounts receivable and bill and collect unbilled services. Management does not anticipate incurring losses on accounts receivable in excess of established allowances. See Note 18 "Segment Information" for concentration of accounts receivable and unbilled services.

We hold our cash in accounts at multiple third-party financial institutions. These deposits, at times, may exceed federally insured limits. We review the credit ratings of these financial institutions, regularly monitor the cash balances in these accounts, and adjust the balances as appropriate. However, these cash balances could be impacted if the underlying financial institutions fail or are subject to other adverse conditions in the financial markets.

**Long-term Investment**

Our long-term investment consists of our convertible debt investment in Shorelight Holdings, LLC. We classified the investment as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. The investment is carried at fair value with unrealized holding gains and losses reported in other comprehensive income. If the investment is in an unrealized loss position, we assess whether the investment is other than temporarily impaired. We consider impairments to be other than temporary if they are related to significant credit deterioration or if it is likely we will sell the security before the recovery of its cost basis. We have not identified any other than temporary impairments for our convertible debt investment. In the event there are realized gains and losses or declines in value judged to be other than temporary, we will record the amount in earnings. See Note 12 "Fair Value of Financial Instruments" for further information on our convertible debt investment.

**Fair Value of Financial Instruments**

See Note 12 “Fair Value of Financial Instruments” for the accounting policies used to measure the fair value of our financial assets and liabilities that are measured at fair value on a recurring basis.

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Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets. Software, computers, and related equipment are depreciated over an estimated useful life of two to four years. Furniture and fixtures are depreciated over five years. Aircraft are depreciated over ten years. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the initial term of the lease.

Software Development Costs

We incur internal and external software development costs related to our cloud computing applications and software for internal use. We capitalize these software development costs incurred during the application development stage. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Once the project is substantially complete and ready for its intended use these costs are amortized on a straight-line basis over the technology's estimated useful life. Acquired technology assets are initially recorded at fair value and amortized on a straight-line basis over the estimated useful life.

We also incur internal and external software development costs related to our software products that will be sold, leased, or otherwise marketed. We expense these software development costs until technological feasibility has been established. Thereafter and until the software is available for general release to customers, these software development costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. These capitalized development costs are amortized in proportion to current and future revenue for each product with an annual minimum equal to the straight-line amortization over the remaining estimated economic life of the product. We classify capitalized software development costs as other non-current assets on our consolidated balance sheet. Unamortized capitalized software development costs were \$7.3 million and \$2.0 million at December 31, 2018 and 2017, respectively. During the years ended December 31, 2018, 2017, and 2016, we amortized \$1.4 million, \$0.8 million, and \$1.1 million, respectively, of capitalized software development costs.

Intangible Assets Other Than Goodwill

Identifiable intangible assets are amortized over their expected useful lives using a method that reflects the economic benefit expected to be derived from the assets or on a straight-line basis. We evaluate the recoverability of intangible assets periodically by taking into account events or circumstances that may warrant revised estimates of useful lives or that indicate the asset may be impaired.

Impairment of Long-Lived Assets

Long-lived assets, including property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses, or a significant decline in forecasted operating results over an extended period of time. We evaluate the recoverability of long-lived assets based on forecasted undiscounted cash flows. No impairment charges for long-lived assets were recorded in 2018, 2017, or 2016.

Goodwill

For acquisitions accounted for as a business combination, goodwill represents the excess of the cost over the fair value of the net assets acquired. We are required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a reporting unit may be below its carrying value. A reporting unit is an operating segment or one level below an operating segment (referred to as a component) to which goodwill is assigned when initially recorded. We assign goodwill to reporting units based on our integration plans and the expected synergies resulting from the acquisition. We have six reporting units: Healthcare, Education, Business Advisory, Enterprise Solutions and Analytics, Strategy and Innovation, and Life Sciences. The Business Advisory, Enterprise Solutions and Analytics, Strategy and Innovation, and Life Sciences reporting units make up our Business Advisory operating segment.

We test goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred. We perform our annual goodwill impairment test as of November 30 and monitor for interim triggering events on an ongoing basis.

Pursuant to our policy, we performed the annual goodwill impairment test as of November 30, 2018 and determined that no impairment of goodwill existed as of that date. Further, we evaluated whether any events have occurred, or any circumstances have changed since November 30, 2018 that would indicate goodwill may have become impaired since our annual impairment test. Based on our evaluation as of December 31, 2018, we determined that no indications of impairment have arisen since our annual goodwill impairment test.

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HURON CONSULTING GROUP INC.

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Business Combinations

We use the acquisition method of accounting for business combinations. Each acquired company's operating results are included in our consolidated financial statements starting on the date of acquisition. The purchase price is equivalent to the fair value of consideration transferred. Tangible and identifiable intangible assets acquired and liabilities assumed are recorded at fair value as of the acquisition date. Goodwill is recognized for the excess of purchase price over the net fair value of tangible and intangible assets acquired and liabilities assumed. Contingent consideration, which is primarily based on the business achieving certain performance targets, is recognized at its fair value on the acquisition date, and changes in fair value are recognized in earnings until settled. Refer to Note 12 "Fair Value of Financial Instruments" for further information regarding our contingent acquisition liability balances.

Deferred Lease Incentives

We record the portion of the deferred lease incentive liability that we expect to recognize over a period greater than one year as a non-current liability. The non-current portion of the deferred lease incentive liability totaled \$13.7 million and \$15.3 million at December 31, 2018 and 2017, respectively, and was primarily generated from tenant improvement allowances and rent abatement. Deferred lease incentives are amortized on a straight-line basis over the life of the lease. The portion of the deferred lease incentive corresponding to the rent payments that will be paid within 12 months of the balance sheet date is classified as a current liability. We monitor the classification of such liabilities based on the expectation of their utilization periods.

Income Taxes

Current tax liabilities and assets are recognized for the estimated taxes payable or refundable, respectively, on the tax returns for the current year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. To the extent that deferred tax assets will not likely be recovered from future taxable income, a valuation allowance is established against such deferred tax assets.

Refer to Note 16 "Income Taxes" for further information regarding incomes taxes.

Share-Based Compensation

Share-based compensation cost is measured based on the grant date fair value of the respective awards. We generally recognize share-based compensation ratably using the straight-line attribution method; however, for those awards with performance criteria and graded vesting features, we use the graded vesting attribution method. It is our policy to account for forfeitures as they occur.

Sponsorship and Advertising Costs

Sponsorship and advertising costs are expensed as incurred. Such expenses for the years ended December 31, 2018, 2017, and 2016 totaled \$7.9 million, \$6.6 million, and \$7.1 million, respectively, and are a component of selling, general and administrative expenses on our consolidated statement of earnings.

Convertible Senior Notes

In September 2014, we issued \$250 million principal amount of 1.25% convertible senior notes due 2019 (the "Convertible Notes") in a private offering. 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. 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 the effective interest method over the term of the Convertible Notes. The equity component will not be remeasured as long as it continues to meet the conditions for equity classification. Refer to Note 6 "Financing Arrangements" for further information regarding the Convertible Notes.

Debt Issuance Costs

We amortize the costs we incur to obtain debt financing over the contractual life of the related debt using the effective interest method for non-revolving debt and the straight-line method for revolving debt. The amortization expense is included in interest expense, net of interest income in our statement of earnings. Unamortized debt issuance costs attributable to our revolving credit facility are included as a component of other non-current assets. Unamortized debt issuance costs attributable to our Convertible Notes are recorded as a deduction from the carrying amount of the debt liability.

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HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

Foreign Currency

Assets and liabilities of foreign subsidiaries whose functional currency is not the United States Dollar (USD) are translated into the USD using the exchange rates in effect at period end. Revenue and expense items are translated using the average exchange rates for the period. Foreign currency translation adjustments are included in accumulated other comprehensive income, which is a component of stockholders' equity.

Foreign currency transaction gains and losses are included in other income, net on the statement of earnings. We recognized \$0.5 million of foreign currency transaction losses in 2018, \$0.4 million of foreign currency transaction gains in 2017, and de minimis foreign currency transaction gains in 2016.

Segment Reporting

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 manages the business under three operating segments, which are reportable segments: Healthcare, Business Advisory, and Education.

New Accounting Pronouncements

Recently Adopted

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments to the guidance improve and simplify rules for hedge accounting to better present the economic results of an entity's risk management activities in its financial statements and improve the disclosures of hedging arrangements. Additionally, ASU 2017-12 simplifies the hedge documentation and effectiveness assessment requirements. We elected to early adopt this ASU effective January 1, 2018. The adoption of this guidance did not have an impact 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. We adopted this ASU effective January 1, 2018. The adoption of this guidance did not have an 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, which superseded ASC 605, Revenue Recognition. 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. We adopted ASC 606 effective January 1, 2018 on a modified retrospective basis to all open contracts, as modified, as of that date. Adoption of the new standard resulted in changes to our accounting policy for revenue recognition, most notably for performance-based billing arrangements, and sales commissions. Refer to our accounting policies section above for additional information on our new accounting policies for revenue recognition and capitalized sales commissions. Adopting ASC 606 on a modified retrospective basis had no impact on our consolidated financial statements in the prior periods presented. Upon adoption, we recorded a \$2.0 million cumulative-effect adjustment to record a net increase to retained earnings for the portion of performance-based billing arrangements that have been earned as of the adoption date but for which we had not recognized as revenue under previous revenue recognition guidance, the capitalization of sales commissions paid on open contracts as of the adoption date, and the related tax effects.

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## HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

The impact of the cumulative effect adjustment on our consolidated balance sheet upon adoption was as follows:

|   | As of<br>December<br>31, 2017 | Cumulative<br>Effect<br>Adjustment | As of<br>January<br>1, 2018 |
|---|-------------------------------|------------------------------------|-----------------------------|
| <b>Assets</b>                             |                               |                                    |                             |
| Unbilled services, net <sup>(1)</sup>     | \$57,618                      | \$ 2,369                           | \$59,987                    |
| Prepaid expenses and other current assets | \$10,951                      | \$ 104                             | \$11,055                    |
| Deferred income taxes, net                | \$16,752                      | \$ (627 )                          | \$16,125                    |
| Other non-current assets                  | \$25,375                      | \$ 170                             | \$25,545                    |

**Equity**

|                   |           |          |           |
|-------------------|-----------|----------|-----------|
| Retained earnings | \$180,443 | \$ 2,016 | \$182,459 |
|-------------------|-----------|----------|-----------|

(1) The cumulative-effect adjustment related to the portion of performance-based billing arrangements that have been earned as of the adoption date but for which we had not recognized as revenue under previous revenue recognition guidance was recorded as a contract asset within unbilled services, net on our consolidated balance sheet. Refer to Note 6 "Revenues" for additional information on our contract assets.

The impact of adoption on our consolidated balance sheet as of December 31, 2018 and consolidated statements of operations for the twelve months ended December 31, 2018 was as follows:

|   | As of December 31, 2018            |                                    |   |
|---|------------------------------------|------------------------------------|---|
|   | As<br>reported<br>under<br>ASC 606 | As<br>computed<br>under<br>ASC 605 | Effect of Adoption<br>Increase/(Decrease) |
| <b>Balance Sheet</b>                      |                                    |                                    |   |
| <b>Assets</b>                             |                                    |                                    |   |
| Receivables from clients, net             | \$109,677                          | \$107,932                          | \$ 1,745                                  |
| Unbilled services, net                    | \$69,613                           | \$58,122                           | \$ 11,491                                 |
| Income tax receivable                     | \$6,612                            | \$9,024                            | \$ (2,412 )                               |
| Prepaid expenses and other current assets | \$13,922                           | \$13,725                           | \$ 197                                    |
| Deferred income taxes, net                | \$2,153                            | \$2,780                            | \$ (627 )                                 |
| Other non-current assets                  | \$30,525                           | \$30,291                           | \$ 234                                    |
| <b>Liabilities</b>                        |                                    |                                    |   |
| Deferred revenues                         | \$28,130                           | \$26,385                           | \$ 1,745                                  |
| <b>Equity</b>                             |                                    |                                    |   |
| Retained earnings                         | \$196,106                          | \$187,223                          | \$ 8,883                                  |

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## HURON CONSULTING GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

|   | Twelve Months Ended December 31,<br>2018 |                                    |   |
|---|--|------------------------------------|---|
|   | As<br>reported<br>under<br>ASC 606       | As<br>computed<br>under<br>ASC 605 | Effect of Adoption<br>Increase/(Decrease) |
| Revenues <sup>(1)</sup>                                 | \$795,125                                | \$786,003                          | \$ 9,122                                  |
| Direct costs  | \$521,537                                | \$521,694                          | \$ (157 )                                 |
| Income from continuing operations before taxes          | \$25,221                                 | \$15,942                           | \$ 9,279                                  |
| Income tax expense                                      | 11,277                                   | 8,865                              | 2,412                                     |
| Net income from continuing operations                   | \$13,944                                 | \$7,077                            | \$ 6,867                                  |
| Earnings per share from continuing operations - basic   | \$0.64                                   | \$0.32                             | \$ 0.32                                   |
| Earnings per share from continuing operations - diluted | \$0.63                                   | \$0.32                             | \$ 0.31                                   |

(1) The change in revenues due to the adoption of ASC 606 relates to revenue recognized for performance-based fee billing arrangements within our Healthcare segment.

## Not Yet Adopted

In March 2016, the FASB issued ASU 2016-02, Leases, as a new Topic, ASC 842, 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 using an effective interest rate method or on a straight-line basis over the term of the lease. ASU 2016-02 will be effective for us beginning January 1, 2019 and requires the use of a modified retrospective transition method for existing leases. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides an optional transition method that allows entities to initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings on the adoption date. We will elect to adopt ASC 842 using the new transition method provided by ASU 2018-11. We will elect the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows us to carryforward the historical lease classification. We will also elect the practical expedient to keep leases with an initial term of 12 months or less off of the balance sheet. While we are still finalizing the impact this guidance will have on our consolidated financial statements, based on our lease portfolio as of December 31, 2018, we currently expect the adoption of this guidance to result in an initial lease liability balance between \$68 million to \$78 million, and an initial right of use asset balance between \$50 million to \$60 million. The difference between these two amounts will be recorded as a decrease to our deferred lease incentive liability and restructuring charge liability.

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

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## 3. Acquisitions

2017

## 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 the results of operations of our Business Advisory segment from the date of acquisition.

## ADI Strategies, Inc.

On April 1, 2017, we completed our acquisition of the international assets of ADI Strategies, Inc. ("ADI Strategies") in Dubai and India. We acquired the U.S. assets of ADI Strategies in the second quarter of 2016. ADI Strategies is a leading enterprise performance management, risk management and business intelligence firm. The international results of operations of ADI Strategies have been included in our consolidated financial statements and results of operations of the Business Advisory segment from the date of acquisition. During the second quarter of 2018, we sold our Middle East practice, which primarily consisted of the international assets of the ADI Strategies acquisition, to a former employee who was the practice leader of that business at the time.

The acquisitions of ADI Strategies and Pope Woodhead are not significant to our consolidated financial statements individually or in the aggregate as of and for the twelve months ended December 31, 2017.

## Innosight Holdings, LLC

On March 1, 2017, we acquired 100% of the membership interests of Innosight Holdings, LLC ("Innosight"). Innosight is a growth strategy firm focused on helping companies navigate disruptive change and manage strategic transformation. Together with Innosight, we 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 date fair value of the consideration transferred for Innosight was \$113.6 million, which consisted of the following:

|   |                  |
|---|------------------|
| Fair value of consideration transferred | March 1,<br>2017 |
| Cash                                    | \$90,725         |
| Common stock                            | 9,560            |
| Contingent consideration liability      | 12,050           |
| Net working capital adjustment          | 1,272            |
| Total consideration transferred         | \$113,607        |

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 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 of contingent consideration that may be paid is \$35.0 million. See Note 12 "Fair Value of Financial Instruments" for additional information on the valuation of contingent consideration liabilities.

The acquisition was accounted for using the acquisition method of accounting. Tangible and identifiable intangible assets acquired and liabilities assumed were recorded at fair value as of the acquisition date.

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

|  | March 1,<br>2017 |
|--|------------------|
| Assets acquired:                               |                  |
| Accounts receivable                            | \$7,752          |
| Unbilled services                              | 1,881            |
| Prepaid expenses and other current assets      | 468              |
| Property and equipment                         | 419              |
| Intangible assets                              | 18,015           |
| Liabilities assumed:                           |                  |
| Accounts payable                               | 531              |
| Accrued expenses and other current liabilities | 894              |
| Accrued payroll and related benefits           | 883              |
| Deferred revenues                              | 30               |
| Total identifiable net assets                  | 26,197           |
| Goodwill                                       | 87,410           |
| Total purchase price                           | \$113,607        |

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<br>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 consolidated statements of operations and results of operations of our Business Advisory segment from the date of acquisition. For the year ended December 31, 2017, revenues from Innosight were \$34.3 million and operating loss was \$0.9 million, which included \$3.4 million of amortization expense for intangible assets acquired. In connection with the acquisition of Innosight, we incurred \$1.7 million of transaction and acquisition-related expenses in 2017. These costs are recorded in selling, general and administrative expenses.



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## HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

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.

|  | Year Ended   |           |
|--|--------------|-----------|
|  | December 31, |           |
|  | 2017         | 2016      |
| Revenues   | \$741,695    | \$769,114 |
| Net income (loss) from continuing operations                     | \$(167,346)  | \$42,760  |
| Net income (loss) from continuing operations per share - basic   | \$(7.79 )    | \$2.01    |
| Net income (loss) from continuing operations per share - diluted | \$(7.79 )    | \$1.98    |

The historical financial information has been adjusted to give effect to pro forma adjustments consisting of intangible asset amortization expense, acquisition-related costs, interest expense, and the related income tax effects. The unaudited pro forma information above includes adjustments to include additional expense of \$0.6 million and \$11.4 million for the years ended December 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 we 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.

2016

## MyRounding Solutions, LLC

On February 1, 2016, we completed the acquisition of MyRounding Solutions, LLC ("MyRounding"), a Denver, Colorado-based firm specializing in digital health solutions to improve patient care. The MyRounding application is designed to standardize, automate, and track rounding activity, allowing nurses and staff to improve the care and experience of patients in real time. The addition of MyRounding expands the integration of our software and consulting solutions and strengthens our transformation services for healthcare providers. The results of operations of MyRounding have been included in our consolidated financial statements and the results of operations of our Healthcare segment from the date of acquisition.

## ADI Strategies, Inc.

On May 1, 2016, we completed the acquisition of the U.S. assets of ADI Strategies, Inc. ("ADI Strategies"), a leading enterprise performance management, risk management, and business intelligence firm focused on implementing the Oracle enterprise application suite. The results of operations of ADI Strategies have been included in our consolidated financial statements and the results of operations of our Business Advisory segment from the date of acquisition.

## Healthcare Services Management, Inc.

On August 1, 2016, we completed the acquisition of Healthcare Services Management, Inc. ("HSM Consulting"), a firm specializing in healthcare information technology and management consulting. The results of operations of HSM Consulting have been included in our consolidated financial statements and results of operations of our Healthcare segment from the date of acquisition.

The acquisitions of MyRounding, ADI Strategies, and HSM Consulting are not significant to our consolidated financial statements individually or in the aggregate as of and for the twelve months ended December 31, 2016.

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(Tabular amounts in thousands, except per share amounts)

## 4. Goodwill and Intangible Assets

The table below sets forth the changes in the carrying amount of goodwill by reportable segment for the years ended December 31, 2018 and 2017.

|   | Healthcare | Business<br>Advisory | Education | Total      |
|---|------------|----------------------|-----------|------------|
| Balance as of December 31, 2016:  |            |                      |           |            |
| Goodwill  | \$636,802  | \$203,137            | \$102,906 | \$942,845  |
| Accumulated impairment losses   | —          | (142,983 )           | —         | (142,983 ) |
| Goodwill, net as of December 31, 2016                                     | \$636,802  | \$60,154             | \$102,906 | \$799,862  |
| Goodwill recorded in connection with business combinations <sup>(1)</sup> | 8          | 88,183               | 10,252    | 98,443     |
| Goodwill impairment charge  | (208,081 ) | (45,012 )            | —         | (253,093 ) |
| Goodwill reallocation <sup>(2)</sup>                                      | —          | 10,794               | (10,794 ) | —          |
| Goodwill allocated to disposal of business <sup>(3)</sup>                 | —          | (568 )               | —         | (568 )     |
| Foreign currency translation  | —          | 641                  | 465       | 1,106      |
| Balance as of December 31, 2017:  |            |                      |           |            |
| Goodwill  | 636,810    | 302,187              | 102,829   | 1,041,826  |
| Accumulated impairment losses   | (208,081 ) | (187,995 )           | —         | (396,076 ) |
| Goodwill, net as of December 31, 2017                                     | \$428,729  | \$114,192            | \$102,829 | \$645,750  |
| Goodwill recorded in connection with business combinations <sup>(1)</sup> | —          | 186                  | —         | 186        |
| Foreign currency translation  | —          | (673 )               | —         | (673 )     |
| Balance as of December 31, 2018:  |            |                      |           |            |
| Goodwill  | 636,810    | 301,700              | 102,829   | 1,041,339  |
| Accumulated impairment losses   | (208,081 ) | (187,995 )           | —         | (396,076 ) |
| Goodwill, net as of December 31, 2018:                                    | \$428,729  | \$113,705            | \$102,829 | \$645,263  |

(1) Refer to Note 3 "Acquisitions" for additional information on the goodwill recorded in connection with business combinations.

In 2017, we reorganized our internal financial reporting structure, which management uses to assess performance and allocate resources, by moving our Life Sciences practice from the Education and Life Sciences segment to the

(2) Business Advisory segment. The remaining Education and Life Sciences segment is now referred to as the Education segment. The Life Sciences practice is a separate reporting unit for purposes of goodwill impairment testing. See Note 18 "Segment Information" for additional information on our reportable segments.

In 2017, we sold our Life Sciences Compliance and Operations practice ("Life Sciences C&O") to a third-party, and allocated a portion of goodwill within the Life Sciences reporting unit to the disposed business based on the relative fair values of Life Sciences C&O and the remaining reporting unit. The allocated goodwill of \$0.6 million was written off and included in the gain on sale of Life Sciences C&O. The sale of Life Sciences C&O did not meet the criteria for reporting separately as discontinued operations. In connection with the sale, we recorded a \$0.9 million gain which is included in other income, net in our consolidated statements of operations.

## 2018 Annual Goodwill Impairment Test

Pursuant to our policy, we performed our annual goodwill impairment test as of November 30, 2018 for our five reporting units with goodwill balances: Healthcare, Education, Business Advisory, Strategy and Innovation, and Life Sciences. We performed a qualitative assessment over all reporting units to determine if it was more likely than not the respective fair values of these reporting units were less than their carrying amounts, including goodwill.

For our qualitative assessment, we considered the most recent quantitative analysis performed for each reporting unit, which was as of November 30, 2017, including the key assumptions used within that analysis, the indicated fair values, and the amount by which those fair values exceeded their carrying amounts. One of the key assumptions used within the prior quantitative analysis was our internal financial projections; therefore, we considered the actual

performance of each reporting unit during 2018 compared to the internal financial projections used, as well as specific outlooks for each reporting unit based on our most recent internal financial projections. We also considered the market-based valuation multiples used in the market approach within our prior quantitative analysis, which were derived from guideline

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companies, and noted that the valuation multiples generally increased over the past year. We also reviewed the current carrying value of each reporting unit in comparison to the carrying values as of the prior quantitative analysis. In addition, we considered various factors, including macroeconomic conditions, relevant industry and market trends for each reporting unit, and other entity-specific events, that could indicate a potential change in the fair value of our reporting units or the composition of their carrying values. Based on our assessments, we determined that it was more likely than not that the fair values for each of our reporting units exceeded their respective carrying amounts. As such, the goodwill for our reporting units was not considered impaired as of November 30, 2018, and a quantitative goodwill impairment analysis was not necessary.

Further, we evaluated whether any events have occurred or any circumstances have changed since November 30, 2018 that would indicate goodwill may have become impaired since our annual impairment test. Based on our evaluation as of December 31, 2018, we determined that no indications of impairment have arisen since our annual goodwill impairment test.

The results of an impairment analysis are as of a point in time. There is no assurance that the actual future earnings or cash flows of our reporting units will be consistent with our projections. We will monitor any changes to our assumptions and will evaluate goodwill as deemed warranted during future periods. Any significant decline in our operations could result in non-cash goodwill impairment charges.

**Second Quarter 2017 Goodwill Impairment Charge**

During the second quarter of 2017, we performed a goodwill impairment analysis for our Healthcare reporting unit as our Healthcare business was experiencing a prolonged period of declining revenues at the time, primarily driven by softness in our revenue cycle offering within our performance improvement solution. This softness was 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. Based on forecasts prepared in the second quarter of 2017 in connection with our quarterly forecasting cycle, we determined that the likely time frame to improve the financial results of this segment would take longer than originally anticipated. As such, we concluded, during the second quarter of 2017, that the fair value of the Healthcare reporting unit may no longer exceed its carrying value. In connection with the preparation of our financial statements for the quarter ended June 30, 2017, we performed an interim impairment test on the Healthcare reporting unit.

Our goodwill impairment test was performed by comparing the fair value of the Healthcare reporting unit to its carrying value and recognizing an impairment charge for the amount by which the carrying value exceeded the fair value. To estimate the fair value of the Healthcare reporting unit, we relied on a combination of the income approach and the market approach, utilizing the guideline company method, with a fifty-fifty weighting. Based on the estimated fair value of the Healthcare reporting unit, we recorded a \$208.1 million non-cash pretax goodwill impairment charge in 2017 to reduce the carrying value of goodwill in our Healthcare reporting unit.

**2017 Annual Goodwill Impairment Test**

Pursuant to our policy, we performed our annual goodwill impairment test as of November 30, 2017 for our six reporting units with goodwill balances at the time: Healthcare, Education, Business Advisory, Enterprise Solutions and Analytics, Strategy and Innovation, and Life Sciences. We elected to bypass the qualitative assessment and proceeded directly to the quantitative goodwill impairment test.

For each reporting unit, we reviewed goodwill for impairment by comparing the fair value of the reporting unit to its carrying value, including goodwill. In estimating the fair value of each reporting unit, we relied on a combination of the income approach and the market approach, utilizing the guideline company method, with a fifty-fifty weighting. Based on the results of the goodwill impairment test, we determined that the fair value of the Healthcare, Education, Business Advisory, Strategy and Innovation, and Life Sciences reporting units exceeded its carrying value by 40%, 120%, 115%, 33%, and 14%, respectively. As such, we concluded that there was no indication of goodwill impairment for these five reporting units. However, the results of the quantitative impairment test indicated that the fair value of the Enterprise Solutions and Analytics reporting unit did not exceed its carrying value. Based on the

estimated fair value of the Enterprise Solutions and Analytics reporting unit, we recorded a \$45.0 million non-cash pretax charge to reduce the carrying value of this reporting unit's goodwill to zero.

Our Enterprise Solutions and Analytics reporting unit was established with the acquisition of Blue Stone International, LLC in 2013. Since that time, we completed five additional business acquisitions within the reporting unit, most recently the acquisitions of the U.S. assets and international assets of ADI Strategies in May 2016 and April 2017, respectively. 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. Due to this reporting unit's relatively low headroom, in the event that the financial performance of the reporting unit did not meet our expectations during 2017, we could be required to take a non-cash impairment charge as a result of any goodwill impairment test. During the first three quarters of 2017, the performance of Enterprise Solutions and Analytics continued to reasonably meet our expectations. However, both revenues and operating margin during the fourth quarter of 2017 fell short of our expectations resulting in a reduction in workforce within the reporting unit during that

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quarter. Further, in connection with our annual budget process for 2018, which coincided with our annual goodwill impairment test during the fourth quarter of 2017, we determined that the reporting unit's expected future revenue growth rates and operating margin would be lower than previously anticipated for this reporting unit. As a result, our goodwill impairment test indicated that the fair value of the Enterprise Solutions and Analytics reporting unit no longer exceeded its carrying value, and we recorded a \$45.0 million non-cash pretax charge to write off the entire carrying value of this reporting unit's goodwill.

## Intangible Assets

Intangible assets as of December 31, 2018 and 2017 consisted of the following:

|                            | Useful Life<br>in Years | As of December 31,<br>2018  |                             | 2017                        |                             |
|----------------------------|-------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                            |                         | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
| Customer relationships     | 4 to 13                 | \$98,235                    | \$ 60,462                   | \$106,195                   | \$ 51,588                   |
| Trade names                | 5 to 6                  | 28,930                      | 23,181                      | 29,016                      | 18,915                      |
| Customer contracts         | 4                       | —                           | —                           | 25,154                      | 24,751                      |
| Technology and software    | 3 to 5                  | 5,694                       | 2,842                       | 9,340                       | 5,098                       |
| Non-competition agreements | 3 to 5                  | 3,650                       | 2,241                       | 5,163                       | 2,637                       |
| Publishing content         | 3                       | —                           | —                           | 3,300                       | 3,163                       |
| Favorable lease contract   | 3                       | 720                         | 646                         | 720                         | 425                         |
| Total                      |                         | \$137,229                   | \$ 89,372                   | \$178,888                   | \$ 106,577                  |

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.

Intangible assets amortization expense was \$24.0 million, \$35.0 million, and \$33.1 million for the years ended December 31, 2018, 2017, and 2016, respectively. The table below sets forth the estimated annual amortization expense for each of the five succeeding years for the intangible assets recorded as of December 31, 2018.

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

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

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## 5. Property and Equipment, Net

Depreciation expense for property and equipment was \$13.4 million, \$13.3 million, and \$12.5 million for the years ended December 31, 2018, 2017, and 2016, respectively. Property and equipment, net at December 31, 2018 and 2017 consisted of the following:

|  | As of December |           |
|--|----------------|-----------|
|  | 31,            |           |
|  | 2018           | 2017      |
| Computers, related equipment, and software | \$53,116       | \$46,216  |
| Leasehold improvements                     | 45,052         | 45,244    |
| Furniture and fixtures                     | 17,408         | 16,434    |
| Aircraft                                   | 7,541          | 7,541     |
| Assets under construction                  | 250            | 250       |
| Property and equipment                     | 123,367        | 115,685   |
| Accumulated depreciation and amortization  | (82,993 )      | (70,144 ) |
| Property and equipment, net                | \$40,374       | \$45,541  |

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## HURON CONSULTING GROUP INC.

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## 6. Financing Arrangements

A summary of the carrying amounts of our debt follows:

|   | As of December 31, |           |
|---|--------------------|-----------|
|   | 2018               | 2017      |
| 1.25% convertible senior notes due 2019 | \$242,617          | \$233,140 |
| Senior secured credit facility          | 50,000             | 105,000   |
| Promissory note due 2024                | 4,368              | 4,868     |
| Total long-term debt                    | \$296,985          | \$343,008 |
| Current maturities of long-term debt    | (243,132 )         | (501 )    |
| Long-term debt, net of current portion  | \$53,853           | \$342,507 |

Below is a summary of the scheduled remaining principal payments of our debt as of December 31, 2018.

|            | Principal<br>Payments<br>of<br>Long-Term<br>Debt |
|------------|--|
| 2019       | \$ 250,515                                       |
| 2020       | \$ 529   |
| 2021       | \$ 544   |
| 2022       | \$ 559   |
| 2023       | \$ 50,575  |
| Thereafter | \$ 1,646   |

## Convertible Notes

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

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

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

approximately \$97.12 per share.

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:

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## HURON CONSULTING GROUP INC.

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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 December 31, 2018, the remaining life of the Convertible Notes is 0.8 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 December 31, 2018 and 2017, the Convertible Notes consisted of the following:

|  | As of December 31, |           |
|--|--------------------|-----------|
|  | 2018               | 2017      |
| Liability component:                           |                    |           |
| Proceeds                                       | \$250,000          | \$250,000 |
| Less: debt discount, net of amortization       | (6,436 )           | (14,668 ) |
| Less: debt issuance costs, net of amortization | (947 )             | (2,192 )  |
| Net carrying amount                            | \$242,617          | \$233,140 |
| Equity component <sup>(1)</sup>                | \$39,287           | \$39,287  |

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

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

|                                     | Year Ended December 31, |         |         |
|-------------------------------------|-------------------------|---------|---------|
|                                     | 2018                    | 2017    | 2016    |
| Contractual interest coupon         | \$3,125                 | \$3,125 | \$3,125 |
| Amortization of debt discount       | 8,232                   | 7,851   | 7,488   |
| Amortization of debt issuance costs | 1,245                   | 1,224   | 1,201   |

Total interest expense \$12,602 \$12,200 \$11,814

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

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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 deferred income taxes, net on the consolidated balance sheets.

**Senior Secured Credit Facility**

The Company has a \$500 million five-year senior secured revolving credit facility, subject to the terms of a Second Amended and Restated Credit Agreement dated as of March 31, 2015, as amended to date (as amended and modified the "Amended Credit Facility"), that becomes due and payable in full upon maturity on March 23, 2023. The Amended Credit Agreement provides the option to increase the revolving credit facility or establish term loan facilities in an aggregate amount of up to \$150 million, subject to customary conditions and the approval of any lender whose commitment would be increased, resulting in a maximum available principal amount under the Amended Credit Agreement of \$650 million. The initial borrowings under the Amended Credit Agreement were used to refinance borrowings outstanding under a prior credit agreement, and future borrowings under the Amended Credit Agreement may be used for working capital, capital expenditures, acquisitions of businesses, share repurchases, and general corporate purposes.

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

Amounts borrowed under the Amended Credit Agreement may be prepaid at any time without premium or penalty. We are required to prepay the amounts outstanding under the Amended Credit Agreement in certain circumstances,

including a requirement to pay all amounts outstanding 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

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the Amended Credit Agreement, a first-priority lien, subject to permitted liens, on substantially all of the personal property assets of the Company and the subsidiary guarantors, and a pledge of 100% of the stock or other equity interests in all domestic subsidiaries and 65% of the stock or other equity interests in each “material first-tier foreign subsidiary” (as defined in the Pledge Agreement).

The Amended Credit Agreement contains usual and customary representations and warranties; affirmative and negative covenants, which include limitations on liens, investments, additional indebtedness, and restricted payments; and two quarterly financial covenants as follows: (i) a maximum Consolidated Leverage Ratio (defined as the ratio of debt to consolidated EBITDA) ranging from 3.50 to 1.00 to 4.00 to 1.00, depending on the measurement period, and (ii) a minimum Consolidated Interest Coverage Ratio (defined as the ratio of consolidated EBITDA to interest) of 3.50 to 1.00. Consolidated EBITDA for purposes of the financial covenants is calculated on a continuing operations basis and includes adjustments to add back non-cash goodwill impairment charges, share-based compensation costs, certain non-cash restructuring charges, pro forma historical EBITDA for businesses acquired, and other specified items in accordance with the Amended Credit Agreement. At December 31, 2018, we were in compliance with these financial covenants with a Consolidated Leverage Ratio of 2.83 to 1.00 and a Consolidated Interest Coverage Ratio of 11.03 to 1.00.

Borrowings outstanding under the Amended Credit Agreement at December 31, 2018 totaled \$50.0 million. These borrowings carried a weighted average interest rate of 3.7%, including the impact of the interest rate swap described in Note 11 “Derivative Instruments and Hedging Activity.” Borrowings outstanding under the Amended Credit Agreement at December 31, 2017 were \$105.0 million and carried a weighted average interest rate of 3.7%, including the impact of the interest rate swap described in Note 11 “Derivative Instruments and Hedging Activity.” The borrowing capacity under the revolving credit facility is reduced by any outstanding borrowings under the revolving credit facility and outstanding letters of credit. At December 31, 2018, we had outstanding letters of credit totaling \$1.6 million, which are primarily used as security deposits for our office facilities. As of December 31, 2018, the unused borrowing capacity under the revolving credit facility was \$448.4 million.

Promissory Note due 2024

In 2017, in conjunction with our purchase of an aircraft related to the acquisition of Innosight, we assumed, from the sellers of the aircraft, a promissory note with an outstanding principal balance of \$5.1 million. The principal balance of the promissory note is subject to scheduled monthly principal payments until the maturity date of March 1, 2024, at which time a final payment of \$1.5 million, plus any accrued and unpaid interest, will be due. Under the terms of the promissory note, we will pay interest on the outstanding principal amount at a rate of one-month LIBOR plus 1.97% per annum. The obligations under the promissory note are secured pursuant to a Loan and Aircraft Security Agreement with Banc of America Leasing & Capital, LLC, which grants the lender a first priority security interest in the aircraft. At December 31, 2018, the outstanding principal amount of the promissory note was \$4.4 million. As of December 31, 2018, the aircraft had a carrying amount of \$5.8 million. At December 31, 2017, the outstanding principal amount of the promissory note was \$4.9 million, and the aircraft had a carrying amount of \$6.5 million.

7. Capital Structure

Preferred Stock

We are authorized to issue up to 50,000,000 shares of preferred stock. Our certificate of incorporation authorizes our board of directors, without any further stockholder action or approval, to issue these shares in one or more classes or series, to establish from time to time the number of shares to be included in each class or series, and to fix the rights, preferences and privileges of the shares of each wholly unissued class or series and any of its qualifications, limitations or restrictions. As of December 31, 2018 and 2017, no such preferred stock has been approved or issued.

Common Stock

We are authorized to issue up to 500,000,000 shares of common stock, par value \$.01 per share. The holders of common stock are entitled to one vote for each share held of record on each matter submitted to a vote of stockholders. Subject to the rights and preferences of the holders of any series of preferred stock that may at the time

be outstanding, holders of common stock are entitled to such dividends as our board of directors may declare. In the event of any liquidation, dissolution or winding-up of our affairs, after payment of all of our debts and liabilities and subject to the rights and preferences of the holders of any series of preferred stock that may at the time be outstanding, holders of common stock will be entitled to receive the distribution of any of our remaining assets.

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HURON CONSULTING GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

8. Revenues

For the years ended December 31, 2018, 2017 and 2016 we recognized revenues of \$795.1 million, \$732.6 million, and \$726.3 million respectively. Of the \$795.1 million recognized in 2018, we recognized revenues of \$10.8 million from obligations satisfied, or partially satisfied, in prior periods, of which \$7.2 million was due to changes in the estimates of our variable consideration under performance-based billing arrangements and \$3.6 million was primarily due to the release of allowances on unbilled services due to securing contract amendments.

As of December 31, 2018, we had \$91.6 million of remaining performance obligations under engagements with original expected durations greater than one year. These remaining performance obligations exclude obligations under contracts with an original expected duration of one year or less, variable consideration which has been excluded from the total transaction price due to the constraint, and performance obligations under time-and-expense engagements which are recognized in the amount invoiced. Of the \$91.6 million of performance obligations, we expect to recognize approximately \$74.9 million as revenue in 2019, \$12.1 million in 2020, and the remaining \$4.6 million thereafter.

Actual revenue recognition could differ from these amounts as a result of changes in the estimated timing of work to be performed, adjustments to estimated variable consideration in performance-based arrangements, or other factors.

Contract Assets and Liabilities

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

Unbilled services include revenues recognized for services performed but not yet billed to clients. Services performed that we are not yet entitled to bill because certain events, such as the completion of the measurement period or client approval in performance-based engagements, must occur are recorded as contract assets and included within unbilled services, net. The contract asset balance within unbilled services, net was \$9.1 million as of December 31, 2018 and \$2.4 million as of January 1, 2018, upon adoption of ASC 606. The \$6.7 million increase primarily reflects timing differences between the completion of our performance obligations and the amounts billed or billable to clients in accordance with their contractual billing terms. Refer to Note 2 "Summary of Significant Accounting Policies" for additional information on the adoption of ASC 606.

Client prepayments and retainers are classified as deferred revenues and recognized over future periods in accordance with the applicable engagement agreement and our revenue recognition policy. Our deferred revenues balance as of December 31, 2018 and December 31, 2017 was \$28.1 million and \$27.9 million respectively. The \$0.2 million increase primarily reflects timing differences between client payments in accordance with their contract terms and the completion of our performance obligations. For the twelve months ended December 31, 2018, \$23.5 million of revenues recognized were included in the deferred revenue balance as of December 31, 2017.

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## HURON CONSULTING GROUP INC.

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## 9. Earnings Per Share

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

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

|  | Year Ended December 31, |             |          |
|--|-------------------------|-------------|----------|
|  | 2018                    | 2017        | 2016     |
| Net income (loss) from continuing operations           | \$13,944                | \$(170,505) | \$39,480 |
| Income (loss) from discontinued operations, net of tax | (298 )                  | 388         | (1,863 ) |
| Net income (loss)                                      | \$13,646                | \$(170,117) | \$37,617 |
| Weighted average common shares outstanding—basic       | 21,706                  | 21,439      | 21,084   |
| Weighted average common stock equivalents              | 352                     | —           | 340      |
| Weighted average common shares outstanding—diluted     | 22,058                  | 21,439      | 21,424   |

Net earnings (loss) per basic share:

|  |         |           |         |
|--|---------|-----------|---------|
| Net income (loss) from continuing operations           | \$0.64  | \$(7.95 ) | \$1.87  |
| Income (loss) from discontinued operations, net of tax | (0.01 ) | 0.02      | (0.09 ) |
| Net income (loss)                                      | \$0.63  | \$(7.93 ) | \$1.78  |

Net earnings (loss) per diluted share:

|  |         |           |         |
|--|---------|-----------|---------|
| Net income (loss) from continuing operations           | \$0.63  | \$(7.95 ) | \$1.84  |
| Income (loss) from discontinued operations, net of tax | (0.01 ) | 0.02      | (0.08 ) |
| Net income (loss)                                      | \$0.62  | \$(7.93 ) | \$1.76  |

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

|  | As of December 31, |       |       |
|--|--------------------|-------|-------|
|  | 2018               | 2017  | 2016  |
| Unvested restricted stock awards                             | —                  | 636   | 2     |
| Outstanding common stock options                             | —                  | 194   | —     |
| Convertible senior notes                                     | 3,129              | 3,129 | 3,129 |
| Warrants related to the issuance of convertible senior notes | 3,129              | 3,129 | 3,129 |
| Total anti-dilutive securities                               | 6,258              | 7,088 | 6,260 |

See Note 6 “Financing Arrangements” for further information on the convertible senior notes and warrants related to the issuance of convertible notes.

We currently have a share repurchase program permitting us to repurchase up to \$125 million of our common stock through October 31, 2019 (the "Share Repurchase Program"). The amount and timing of the repurchases will be determined by management and will depend on a variety of factors, including the trading price of our common stock, capacity under our credit facility, general market and business conditions, and applicable legal requirements. No shares were repurchased under this program in 2018 or 2017. In 2016, we repurchased and retired 982,192 shares for

\$55.3 million. As of December 31, 2018, \$35.1 million remains available for share repurchases.

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HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

10. Restructuring Charges

In 2018, we incurred \$3.7 million of pretax restructuring expense. This expense primarily consisted of the following charges:

Severance - We incurred \$2.1 million of severance expense as a result of workforce reductions to better align resources with market demand. Of the \$2.1 million, \$1.1 million related to our Healthcare segment and \$1.0 million related to our Business Advisory segment.

Office exit costs - We incurred \$1.3 million of office exit costs. Of the \$1.3 million, \$0.8 million related to the accrual of remaining lease payments, net of estimated sublease income, accelerated depreciation on leasehold improvements, and moving expenses due to exiting a portion of our Middleton, Wisconsin office; \$0.4 million related to updated lease assumptions, commission costs, and moving expenses for our San Francisco office vacated in 2017; and \$0.1 million related to updated lease assumptions for our Chicago office consolidation.

Other - We incurred \$0.3 million related to the divestiture of our Middle East practice within the Business Advisory segment in the second quarter of 2018. During the second quarter of 2018, we sold our Middle East practice to a former employee who was the practice leader of that business at the time, and we recorded a \$5.8 million loss which is included in other income (expense), net in our consolidated statements of operations.

Of the \$3.7 million pretax restructuring charge, \$1.1 million was related to our Healthcare segment, \$1.0 million was related to our Business Advisory segment, and \$1.6 million was related to our corporate operations.

In 2017, we incurred \$6.2 million of pretax restructuring expense. This expense primarily consisted of the following charges:

Severance - We incurred \$3.7 million of severance expense as a result of workforce reductions to better align resources with market demand. Of the \$3.7 million, \$2.1 million related to our Healthcare segment, \$1.1 million related to our Business Advisory segment, and \$0.4 million related to our corporate operations.

Office exit costs - We incurred \$2.4 million of office exit costs primarily related to the accrual of remaining lease obligations, net of estimated sublease income, due to relocating our San Francisco office to a smaller space and consolidating our Chicago and New York offices, and accelerated depreciation on leasehold improvements for our San Francisco office.

Of the \$6.2 million pretax restructuring charge, \$2.1 million was related to our Healthcare segment, \$1.1 million was related to our Business Advisory segment, and \$2.9 million was related to our corporate operations.

In 2016, we incurred \$9.6 million of pretax restructuring expense. This expense consisted of the following charges:

Severance - We incurred \$7.3 million of severance expense as a result of workforce reductions, of which \$5.8 million was related to our Healthcare segment and \$0.6 million was related to our Business Advisory segment to better align our resources with market demand and \$0.9 million was related to our corporate infrastructure as a result of our Huron Legal divestiture.

Office exit costs - We incurred \$1.5 million of office exit costs primarily related to our Washington, D.C. space that we vacated in 2014. During 2016, we entered into a sublease agreement and adjusted our Washington, D.C. lease accrual to reflect the terms specified in the sublease agreement.

Other - We also incurred \$0.8 million of restructuring expense related to the wind down of our foreign consulting operations based in the Middle East and other exit costs.

Of the \$9.6 million pretax restructuring charge, \$5.8 million was related to our Healthcare segment, \$3.2 million was related to our corporate operations, and \$0.6 million was related to our Business Advisory segment.

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(Tabular amounts in thousands, except per share amounts)

The table below sets forth the changes in the carrying amount of our restructuring charge liability by restructuring type for the years ended December 31, 2018 and 2017.

|                                 | Employee<br>Costs | Office<br>Space<br>Reductions | Other | Total     |
|---------------------------------|-------------------|-------------------------------|-------|-----------|
| Balance as of December 31, 2016 | \$ 5,182          | \$ 5,773                      | \$ 24 | \$ 10,979 |
| Additions <sup>(1)</sup>        | 3,859             | 2,426                         | 110   | 6,395     |
| Payments                        | (7,611 )          | (2,860 )                      | 5     | (10,466 ) |
| Adjustments <sup>(1)</sup>      | (117 )            | (973 )                        | (78 ) | (1,168 )  |
| Non-cash items                  | (46 )             | (119 )                        | (61 ) | (226 )    |
| Balance as of December 31, 2017 | 1,267             | 4,247                         | —     | 5,514     |
| Additions <sup>(1)</sup>        | 2,102             | 1,002                         | 190   | 3,294     |
| Payments                        | (2,879 )          | (3,284 )                      | (191) | (6,354 )  |
| Adjustments <sup>(1)</sup>      | (47 )             | 828                           | —     | 781       |
| Non-cash items                  | —                 | (325 )                        | 1     | (324 )    |
| Balance as of December 31, 2018 | \$ 443            | \$ 2,468                      | \$ —  | \$ 2,911  |

Additions and adjustments for the years ended December 31, 2018 and 2017 include restructuring charge of \$0.4 (1) million and a gain of \$1.0 million, respectively, related to updated lease assumptions for vacated offices spaces directly related to discontinued operations.

As of December 31, 2018, our restructuring charge liability related to office space reductions of \$2.5 million represented the present value of remaining lease payments, net of estimated sublease income, primarily for our vacated office spaces in Chicago; Washington, D.C.; Houston; Middleton, Wisconsin; and San Francisco. This restructuring charge liability is included as a component of accrued expenses and other current liabilities and deferred compensation and other liabilities. All of the \$0.4 million restructuring charge liability related to employee costs at December 31, 2018 is expected to be paid in 2019. The restructuring charge liability related to employee costs is included as a component of accrued payroll and related benefits.

## 11. Derivative Instruments and Hedging Activity

On June 22, 2017, we entered into a forward interest rate swap agreement effective August 31, 2017 and ending August 31, 2022, with a notional amount of \$50.0 million. We entered into this derivative instrument to hedge against the interest rate risks of our variable-rate borrowings. Under the terms of the interest rate swap agreement, we receive from the counterparty interest on the notional amount based on one-month LIBOR and we pay to the counterparty a fixed rate of 1.900%.

We recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. We have designated this derivative instrument as a cash flow hedge. Therefore, changes in the fair value of the derivative instrument are recorded to other comprehensive income (“OCI”) to the extent effective and reclassified into interest expense upon settlement. As of December 31, 2018, it was anticipated that \$0.2 million of the gains, net of tax, currently recorded in accumulated other comprehensive income will be reclassified into earnings within the next 12 months.

The table below sets forth additional information relating to our interest rate swap designated as a cash flow hedging instrument as of December 31, 2018 and 2017.

| Balance Sheet Location                    | Fair Value (Derivative Asset and Liability) |        |
|---|---|--------|
|   | As of December 31,<br>2018                  | 2017   |
| Prepaid expenses and other current assets | \$ 302                                      | \$ —   |
| Other non-current assets                  | \$ 451                                      | \$ 581 |
| Accrued expenses                          | \$ —  | \$ 48  |



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

We do not use derivative instruments for trading or other speculative purposes. Refer to Note 13 “Other Comprehensive Income (Loss)” for additional information on our derivative instrument.

**12. 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 December 31, 2018 and 2017.

|  | Level<br>1 | Level 2   | Level 3  | Total    |
|--|------------|-----------|----------|----------|
| December 31, 2018                                  |            |           |          |          |
| Assets:  |            |           |          |          |
| Interest rate swaps                                | \$ —       | —\$753    | \$—      | \$ 753   |
| Convertible debt investment                        | —          | —         | 50,429   | 50,429   |
| Deferred compensation assets                       | —          | 18,205    | —        | 18,205   |
| Total assets                                       | \$ —       | —\$18,958 | \$50,429 | \$69,387 |
| Liabilities:                                       |            |           |          |          |
| Contingent consideration for business acquisitions | \$ —       | —\$—      | \$11,441 | \$11,441 |
| Total liabilities                                  | \$ —       | —\$—      | \$11,441 | \$11,441 |
| December 31, 2017                                  |            |           |          |          |
| Assets:  |            |           |          |          |
| Interest rate swap                                 | \$ —       | —\$533    | \$—      | \$ 533   |
| Promissory note                                    | —          | —         | 1,078    | 1,078    |
| Convertible debt investment                        | —          | —         | 39,904   | 39,904   |
| Deferred compensation assets                       | —          | 17,786    | —        | 17,786   |
| Total assets                                       | \$ —       | —\$18,319 | \$40,982 | \$59,301 |
| Liabilities:                                       |            |           |          |          |
| Contingent consideration for business acquisitions | \$ —       | —\$—      | \$22,828 | \$22,828 |
| Total liabilities                                  | \$ —       | —\$—      | \$22,828 | \$22,828 |

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.

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Promissory note: As part of the consideration received for the sale of our Accounting Advisory practice on December 30, 2011, we received a promissory note with an initial principal amount of \$3.5 million payable over four years. During the fourth quarter of 2017, we amended and restated the note which established scheduled annual principal payments, increased the interest rate, reduced the outstanding principal amount by \$0.5 million, and extended the maturity date to September 30, 2020. As of December 31, 2017, the outstanding principal balance was \$1.0 million. During the first six months of 2018, we received payments for all of the outstanding principal balance and all accrued interest. Prior to the final payment, the fair value of the note was based on the net present value of the projected cash flows using a discount rate of 10%, which accounted for the risks associated with the amended note. This fair value measurement was based on significant inputs not observable in the market and thus represent Level 3 inputs.

The table below sets forth the changes in the balance of the promissory note for the years ended December 31, 2018 and 2017.

|   | Promissory<br>Note |
|---|--------------------|
| Balance as of December 31, 2016         | \$ 2,325           |
| Interest payments received              | (185 )             |
| Principal payments received             | (1,177 )           |
| Change in fair value of promissory note | 115                |
| Balance as of December 31, 2017         | 1,078              |
| Interest payments received              | (81 )              |
| Principal payments received             | (1,040 )           |
| Change in fair value of promissory note | 43                 |
| Balance as of December 31, 2018         | \$ —               |

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 and applicable holding period, all of which are Level 3 inputs. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of the investment, which would result in different impacts to our consolidated balance sheet and comprehensive income. Actual results may differ from our estimates. The fair value of the convertible debt investment is recorded in long-term investment on our consolidated balance sheets.

The table below sets forth the changes in the balance of the convertible debt investment for the years ended December 31, 2018 and 2017.

|                                 | Convertible<br>Debt<br>Investment |
|---------------------------------|-----------------------------------|
| Balance as of December 31, 2016 | \$ 34,675                         |

|   |           |
|---|-----------|
| Change in fair value of convertible debt investment | 5,229     |
| Balance as of December 31, 2017                     | 39,904    |
| Change in fair value of convertible debt investment | 10,525    |
| Balance as of December 31, 2018                     | \$ 50,429 |

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

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## HURON CONSULTING GROUP INC.

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consolidated balance sheets. Realized and unrealized gains (losses) from the deferred compensation assets are recorded to other income (expense), net in our consolidated statements of operations.

Contingent consideration for business acquisitions: We estimate the fair value of acquisition-related contingent consideration using either a probability-weighted assessment of the specific financial performance targets being measured or a Monte Carlo simulation model, as appropriate. These fair value measurements are based on significant inputs not observable in the market and thus represent Level 3 inputs. The significant unobservable inputs used in the fair value measurements of our contingent consideration are our measures of the estimated payouts based on internally generated financial projections on a probability-weighted basis and discount rates, which typically reflect a risk-free rate. The fair value of the contingent consideration is reassessed quarterly based on assumptions used in our latest projections and input provided by practice leaders and management. Any change in the fair value estimate is recorded in our consolidated statement of operations for that period. The use of alternative estimates and assumptions could increase or decrease the estimated fair value of our contingent consideration liability, which would result in different impacts to our consolidated balance sheets and consolidated statements of operations. Actual results may differ from our estimates. Refer to Note 3 “Acquisitions” for information on the acquisitions completed in 2017 and 2016.

The table below sets forth the changes in the balance of the contingent consideration for business acquisitions for the years ended December 31, 2018 and 2017.

|   | Contingent<br>Consideration<br>for Business<br>Acquisitions |
|---|---|
| Balance as of December 31, 2016                                     | \$ 8,827  |
| Acquisitions  | 15,489  |
| Payments  | (2,938 )  |
| Remeasurement of contingent consideration for business acquisitions | 1,111   |
| Unrealized loss due to foreign currency translation                 | 339   |
| Balance as of December 31, 2017                                     | 22,828  |
| Acquisitions  | 212   |
| Payments  | (11,974 )   |
| Remeasurement of contingent consideration for business acquisitions | 381   |
| Unrealized gain due to foreign currency translation                 | (6 )  |
| Balance as of December 31, 2018                                     | \$ 11,441   |

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

**Senior Secured Credit Facility**

The carrying value of our borrowings outstanding under our senior secured credit facility is stated at cost. Our carrying value approximates fair value, using Level 2 inputs, as the senior secured credit facility bears interest at variable rates based on current market rates as set forth in the Amended Credit Agreement. Refer to Note 6 “Financing Arrangements” for additional information on our senior secured credit facility.

**Promissory Note due 2024**

The carrying value of our promissory note due 2024 is stated at cost. Our carrying value approximates fair value, using Level 2 inputs, as the promissory note bears interest at rates based on current market rates as set forth in the terms of the promissory note. Refer to Note 6 “Financing Arrangements” for additional information on our promissory note due 2024.

**Convertible Notes**

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

|          | December 31, 2018 | December 31, 2017 |
|----------|-------------------|-------------------|
| Carrying | Estimated         |                   |

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|   | Amount    | Fair Value | Carrying Amount | Estimated Fair Value |
|---|-----------|------------|-----------------|----------------------|
| 1.25% convertible senior notes due 2019 | \$242,617 | \$242,940  | \$233,140       | \$232,578            |

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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 December 31, 2018 and 2017, the carrying value of the equity component of \$39.3 million was unchanged from the date of issuance. Refer to Note 6 “Financing Arrangements” for additional information on our Convertible Notes. The estimated fair value of the Convertible Notes was determined based on the quoted bid price of the Convertible Notes in an over-the-counter market, which is a Level 2 input, on the last day of trading for the years ended December 31, 2018 and 2017.

Based on the closing price of our common stock of \$51.31 on December 31, 2018, 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.

## 13. Other Comprehensive Income (Loss)

The table below sets forth the components of accumulated other comprehensive income (loss), net of tax for the years ended December 31, 2018, 2017, and 2016.

|   | Foreign<br>Currency<br>Translation | Available-for-<br>Sale<br>Investments | Cash Flow<br>Hedges <sup>(1)</sup> | Total     |
|---|------------------------------------|---------------------------------------|------------------------------------|-----------|
| Balance as of December 31, 2015                                   | \$ (517 )                          | \$ 4,185                              | \$ (83 )                           | \$ 3,585  |
| Foreign currency translation adjustment, net of tax of \$0        | 64                                 | —                                     | —                                  | 64        |
| Unrealized loss on investments, net of tax of \$59                | —                                  | (97 )                                 | —                                  | (97 )     |
| Unrealized gain (loss) on cash flow hedges:                       |                                    |                                       |                                    |           |
| Change in fair value, net of tax of \$122                         | —                                  | —                                     | (179 )                             | (179 )    |
| Reclassification adjustment into earnings, net of tax of \$(161)  | —                                  | —                                     | 242                                | 242       |
| Balance as of December 31, 2016                                   | (453 )                             | 4,088                                 | (20 )                              | 3,615     |
| Foreign currency translation adjustment, net of tax of \$0        | 1,602                              | —                                     | —                                  | 1,602     |
| Unrealized gain on investments:                                   |                                    |                                       |                                    |           |
| Change in fair value, net of tax of \$(998)                       | —                                  | 4,231                                 | —                                  | 4,231     |
| Reclassification adjustment into retained earnings <sup>(2)</sup> | —                                  | 493                                   | —                                  | 493       |
| Unrealized gain (loss) on cash flow hedges:                       |                                    |                                       |                                    |           |
| Change in fair value, net of tax of \$(106)                       | —                                  | —                                     | 366                                | 366       |
| Reclassification adjustment into earnings, net of tax of \$(46)   | —                                  | —                                     | 69                                 | 69        |
| Reclassification adjustment into retained earnings <sup>(2)</sup> | —                                  | —                                     | (6 )                               | (6 )      |
| Balance as of December 31, 2017                                   | 1,149                              | 8,812                                 | 409                                | 10,370    |
| Foreign currency translation adjustment, net of tax of \$0        | (1,814 )                           | —                                     | —                                  | (1,814 )  |
| Unrealized gain on investments:                                   |                                    |                                       |                                    |           |
| Change in fair value, net of tax of \$(2,753)                     | —                                  | 7,772                                 | —                                  | 7,772     |
| Unrealized gain (loss) on cash flow hedges:                       |                                    |                                       |                                    |           |
| Change in fair value, net of tax of \$(63)                        | —                                  | —                                     | 197                                | 197       |
| Reclassification adjustment into earnings, net of tax of \$(10)   | —                                  | —                                     | (30 )                              | (30 )     |
| Balance as of December 31, 2018                                   | \$ (665 )                          | \$ 16,584                             | \$ 576                             | \$ 16,495 |

<sup>(1)</sup> The before tax amounts reclassified from accumulated other comprehensive income (loss) related to our cash flow hedges are recorded to interest expense, net of interest income.

Upon adoption of ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220):

<sup>(2)</sup> Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, we reclassified \$0.5 million of stranded tax effects, which resulted from the enactment of the 2017 Tax Reform, from accumulated other comprehensive income to retained earnings.



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HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

14. Employee Benefit and Deferred Compensation Plans

We sponsor a qualified defined contribution 401(k) plan covering substantially all of our employees. Under the plan, employees are entitled to make pretax contributions and/or Roth post-tax contributions up to the annual maximums established by the Internal Revenue Service. We match an amount equal to the employees' contributions up to 6% of the employees' salaries. Our matching contributions, including those related to our discontinued operations, for the years ended December 31, 2018, 2017, and 2016 were \$20.8 million, \$20.0 million, and \$19.4 million, respectively. We have a non-qualified deferred compensation plan (the "Plan") that is administered by our board of directors or a committee designated by the board of directors. Under the Plan, members of the board of directors and a select group of our employees may elect to defer the receipt of their director retainers and meeting fees or base salary and bonus, as applicable. Additionally, we may credit amounts to a participant's deferred compensation account in accordance with employment or other agreements entered into between us and the participant. At our sole discretion, we may, but are not required to, credit any additional amount we desire to any participant's deferred compensation account. Amounts credited are subject to vesting schedules set forth in the Plan, employment agreement, or any other agreement entered into between us and the participant. The deferred compensation liability at December 31, 2018 and 2017 was \$18.4 million and \$17.7 million, respectively. This deferred compensation liability is funded by the Plan assets.

15. Equity Incentive Plans

In 2012, Huron adopted the 2012 Omnibus Incentive Plan (the "2012 Plan"), in order to increase the number of shares of common stock available as equity compensation to employees, non-employee directors, and independent contractors, and to make certain updates to reflect changes in market practices. The 2012 Plan replaced, on a prospective basis, our 2004 Omnibus Stock Plan (the "2004 Plan") such that future grants will be granted under the 2012 Plan and any outstanding awards granted under the 2004 Plan that are cancelled, expired, forfeited, settled in cash, or otherwise terminated without a delivery of shares to the participant will not become available for grant under the 2012 Plan. The 2012 Plan permits the grant of stock options, stock appreciation rights, restricted stock, performance shares and other share-based or cash-based awards valued in whole or in part by reference to, or otherwise based on, our common stock. The 2012 Plan was amended on May 2, 2014 to increase the number of shares authorized for issuance by 850,000 shares. On May 5, 2017, an amendment and restatement of the 2012 Plan was approved by shareholders to increase the number of shares authorized for issuance by 804,000 shares. As of December 31, 2018, approximately 0.8 million shares remain available for issuance under the 2012 Plan.

On May 1, 2015, we adopted the Stock Ownership Participation Program (the "SOPP"), which is available to Huron employees below the managing director level who do not receive equity-based awards as part of their normal compensation plan. Under the SOPP, eligible employees may elect to use after-tax payroll deductions, or cash contributions, to purchase shares of the Company's common stock on certain designated purchase dates. Employees who purchase stock under the SOPP are granted restricted stock equal to 25% of their purchased shares. Vesting of the restricted stock is subject to both a time-based vesting schedule and a requirement that the purchased shares be held for a specified holding period. The initial number of shares available for issuance under the SOPP was 300,000. Prior to adopting the SOPP, the matching share grants and the employee purchased shares under the stock ownership participation program were governed by the 2012 Plan. As of December 31, 2018, approximately 0.1 million shares remain available for issuance under the SOPP.

It has been our practice to issue shares of common stock upon exercise of stock options and granting of restricted stock from authorized but unissued shares, with the exception of the SOPP under which shares are issued from treasury stock. Certain grants of restricted stock under the 2012 Plan may be issued from treasury stock at the direction of the Compensation Committee.

The Compensation Committee of the board of directors has the responsibility of interpreting the 2012 Plan and SOPP and determining all of the terms and conditions of awards made under the plans, including when the awards will become exercisable or otherwise vest. In 2013, the Compensation Committee amended certain share-based awards outstanding under our 2012 Plan and our 2004 Plan to provide for a retirement eligibility provision. Under this

provision, eligible employees who have reached 62 years of age and have completed seven years of employment with Huron will continue vesting in their share-based awards after retirement, subject to certain conditions. This retirement eligibility provision will also apply to future awards granted to eligible employees under the 2012 Plan.

Total share-based compensation cost recognized for the years ended December 31, 2018, 2017, and 2016 was \$18.8 million, \$14.8 million, and \$16.6 million, respectively, with related income tax benefits of \$4.6 million, \$5.8 million, and \$6.4 million, respectively. As of December 31, 2018, there was \$23.0 million of total unrecognized compensation cost related to nonvested share-based awards. This cost is expected to be recognized over a weighted average period of 2.3 years.

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## HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

## Restricted Stock Awards

The grant date fair values of our restricted stock awards are measured based on the fair value of our common stock at grant date and amortized into expense over the service period. Subject to acceleration under certain conditions, the majority of our restricted stock vests annually over four years.

The table below summarizes the restricted stock activity for the year ended December 31, 2018.

|   | Number of Shares |               | Weighted       |
|---|------------------|---------------|----------------|
|   | 2012 Stock       |               | Average        |
|   | Omnibus          | Participation | Grant Date     |
|   | Incentive        | Program       | Total          |
|   | Plan             | Program       | Fair Value     |
|   |                  |               | (in dollars)   |
| Nonvested restricted stock at December 31, 2017 | 561              | 13            | 574 \$ 51.97   |
| Granted   | 466              | 12            | 478 \$ 38.45   |
| Vested  | (231)            | (12)          | (243) \$ 54.67 |
| Forfeited                                       | (49)             | (2)           | (51) \$ 44.68  |
| Nonvested restricted stock at December 31, 2018 | 747              | 11            | 758 \$ 43.08   |

The aggregate fair value of restricted stock that vested during the years ended December 31, 2018, 2017, and 2016 was \$9.1 million, \$11.1 million, and \$14.9 million, respectively. The weighted average grant date fair value per share of restricted stock granted during 2017 and 2016 was \$42.11 and \$56.28, respectively.

## Performance-based Share Awards

During 2018, 2017, and 2016, the Company granted performance-based share awards to our named executive officers and certain managing directors. The total number of shares earned by recipients of these awards is contingent upon meeting practice specific and Company-wide performance goals. Following the performance period, the awards are subject to the completion of a service period, which is generally an additional one to three years. The earned awards vest on a graded vesting schedule over the service period. For certain performance awards, the recipients may earn additional shares of stock for performance achieved above the stated target. The grant date fair values of our performance-based share awards are measured based on the fair value of our common stock at grant date.

Compensation cost is amortized into expense over the service period, including the performance period.

The table below summarizes the performance-based stock activity for the year ended December 31, 2018. All nonvested performance-based stock outstanding at December 31, 2017 and 2018 was granted under the 2012 Omnibus Incentive Plan.

|   | Number of | Weighted     |
|---|-----------|--------------|
|   | Shares    | Average      |
|   |           | Grant Date   |
|   |           | Fair Value   |
|   |           | (in dollars) |
| Nonvested performance-based stock at December 31, 2017                | 353       | \$ 44.45     |
| Granted <sup>(1)</sup>  | 379       | \$ 35.25     |
| Vested  | (43)      | \$ 53.39     |
| Forfeited <sup>(2)</sup>  | (253)     | \$ 42.33     |
| Nonvested performance-based stock at December 31, 2018 <sup>(3)</sup> | 436       | \$ 36.81     |

Shares granted in 2018 are presented at the stated target, which represents the base number of shares that could be (1) earned. Actual shares earned may be below or, for certain grants, above the target based on the achievement of specific financial goals.

(2) Forfeited shares include shares forfeited as a result of not meeting the performance criteria of the award as well as shares forfeited upon termination.

(3)

Of the 436,000 nonvested performance-based shares outstanding as of December 31, 2018, approximately 394,405 shares were unearned and subject to achievement of specific financial goals. Once earned, the awards will be subject to time-based vesting according to the terms of the award. Based on 2018 financial results, approximately 127,664 of the 394,405 unearned shares will be forfeited in the first quarter of 2019.

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(Tabular amounts in thousands, except per share amounts)

The aggregate fair value of performance-based stock that vested during the years ended December 31, 2018, 2017, and 2016 was \$1.5 million, \$3.6 million, and \$3.0 million, respectively. The weighted average grant date fair value per share of performance-based stock granted during 2017 and 2016 was \$42.75 and \$55.52, respectively.

**Stock Options**

Prior to 2014, the Company granted stock option awards to certain named executive officers. No stock option awards were granted in 2018, 2017, or 2016. The exercise prices of stock options are equal to the fair value of a share of common stock on the date of grant. Subject to acceleration under certain conditions, our stock options vest annually over four years. All stock options have a 10-year contractual term.

Stock option activity for the year ended December 31, 2018 was as follows:

|   | Number<br>of<br>Options<br>(in thousands) | Weighted<br>Average<br>Exercise<br>Price<br>(in dollars) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value<br>(in millions) |
|---|---|--|---|--|
| Outstanding at December 31, 2017                | 194                                       | \$ 29.06   | 3.3   | \$ 2.2   |
| Granted   | —   |  |   |  |
| Exercised                                       | 40  | \$ 23.43   |   | \$ 0.8   |
| Forfeited or expired                            | —   |  |   |  |
| Outstanding at December 31, 2018 <sup>(1)</sup> | 154                                       | \$ 30.52   | 2.5   | \$ 3.2   |
| Exercisable at December 31, 2018                | 154                                       | \$ 30.52   | 2.5   | \$ 3.2   |

<sup>(1)</sup> Of the 154,000 outstanding options, approximately 117,000 were granted under the 2004 Omnibus Stock Plan, and the remaining 37,000 options were granted under the 2012 Omnibus Incentive Plan.

The aggregate intrinsic value of options exercised during 2018 was \$0.8 million. No options were exercised in 2017. The aggregate intrinsic value of options exercised during 2016 was \$0.1 million.

**16. Income Taxes**

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (“2017 Tax Reform”), a tax reform bill which, among other items, reduced the corporate federal income tax rate from 35% to 21% and moved from a worldwide tax system to a territorial system. As a result of the enactment of this legislation during the fourth quarter of 2017, we estimated the remeasurement of our net deferred taxes based on the new lower tax rate, as well as provided for additional one-time income tax expense estimates primarily related to the transition tax on accumulated foreign earnings and elimination of foreign tax credits for dividends that are subject to the 100 percent exemption in our consolidated financial statements as of and for the year ended December 31, 2017. In 2017 and the first nine months of 2018, we recorded provisional amounts for certain enactment-date effects of 2017 Tax Reform by applying the guidance in Staff Accounting Bulletin (“SAB”) No. 118 because we had not yet completed our enactment-date accounting for these effects.

We have now completed our accounting for all of the enactment-date income tax effects of 2017 Tax Reform. For the year ended December 31, 2018, we recorded tax expense of \$2.2 million related to establishing a valuation allowance for foreign tax credits, a tax benefit of \$0.6 million related to the U.S. federal return to provision adjustments for the remeasurement of our net deferred taxes based on the new lower rate and tax expense of \$0.2 million related to withholding tax on outside basis differences due to our change in assertion for permanent reinvestment. These amounts are recorded as a component of income tax expense from continuing operations.

2017 Tax Reform subjects a US shareholder to tax on Global Intangible Low-Taxed Income (GILTI) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or to provide for the tax expense related to GILTI in the

year the tax is incurred. We have elected to recognize the tax on GILTI as a period expense in the period the tax is incurred.

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## HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

The income tax expense for continuing operations for the years ended December 31, 2018, 2017, and 2016 consists of the following:

|  | Year Ended December 31, |            |          |
|--|-------------------------|------------|----------|
|  | 2018                    | 2017       | 2016     |
| Current:                                     |                         |            |          |
| Federal                                      | \$(1,611 )              | \$(635 )   | \$15,726 |
| State  | 286                     | 545        | 1,623    |
| Foreign                                      | 1,885                   | 2,040      | 1,021    |
| Total current                                | 560                     | 1,950      | 18,370   |
| Deferred:                                    |                         |            |          |
| Federal                                      | 9,742                   | (46,103 )  | 1,662    |
| State  | 2,008                   | (6,576 )   | (274 )   |
| Foreign                                      | (1,033 )                | (1,270 )   | (81 )    |
| Total deferred                               | 10,717                  | (53,949 )  | 1,307    |
| Income tax expense for continuing operations | \$11,277                | \$(51,999) | \$19,677 |

The components of income from continuing operations before taxes were as follows:

|         | Year Ended December 31, |             |          |
|---------|-------------------------|-------------|----------|
|         | 2018                    | 2017        | 2016     |
| U.S.    | \$17,025                | \$(221,137) | \$56,141 |
| Foreign | 8,196                   | (1,367 )    | 3,016    |
| Total   | \$25,221                | \$(222,504) | \$59,157 |

A reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations is as follows:

|  | Year Ended December 31, |        |        |
|--|-------------------------|--------|--------|
|  | 2018                    | 2017   | 2016   |
| Percent of pretax income from continuing operations:           |                         |        |        |
| At U.S. statutory tax rate                                     | 21.0 %                  | 35.0 % | 35.0 % |
| State income taxes, net of federal benefit                     | 7.2                     | 2.7    | 1.7    |
| Valuation allowance  | 6.9                     | (0.2 ) | (3.2 ) |
| Stock-based compensation                                       | 4.9                     | (0.8 ) | —      |
| Disallowed executive compensation                              | 2.5                     | —      | —      |
| Change in fair value of contingent consideration liabilities   | 2.4                     | —      | —      |
| Global intangible low-taxed income                             | 2.1                     | —      | —      |
| Meals and entertainment  | 2.0                     | (0.3 ) | 1.1    |
| Realized investment (gains) losses                             | 1.3                     | 0.4    | —      |
| Transition tax on accumulated foreign earnings, net of credits | 0.8                     | (0.3 ) | —      |
| U.S. federal rate change                                       | (2.3 )                  | (3.4 ) | —      |
| Foreign source income  | (1.7)                   | 0.1    | (0.5 ) |
| Tax credits  | (1.4)                   | 0.2    | (0.8 ) |
| Net tax benefit related to “check-the-box” election            | —                       | 1.2    | —      |
| Goodwill impairment charges                                    | —                       | (10.2) | —      |
| Other  | (1.0 )                  | (1.0 ) | —      |
| Effective income tax rate for continuing operations            | 44.7 %                  | 23.4 % | 33.3 % |

The effective tax rate for discontinued operations in 2018 was 26.7%, based on tax benefit of \$0.1 million and pretax loss from discontinued operations of \$0.4 million, and was higher than the statutory tax rate primarily due to state

income taxes. The effective tax rate for discontinued operations in 2017 was 60.0%, based on tax expense of \$0.6 million and a pretax income from discontinued operations of \$1.0 million, and was higher than the statutory tax rate primarily due to the settlement of foreign tax audits. The effective tax rate for discontinued

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## HURON CONSULTING GROUP INC.

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(Tabular amounts in thousands, except per share amounts)

operations in 2016 was (33.4)%, based on tax benefits of \$0.9 million and a pretax loss from discontinued operations of \$2.8 million, and was lower than the statutory tax rate primarily due to an increase in the valuation allowance for foreign tax credits.

The net deferred tax liabilities for continuing operations at December 31, 2018 and 2017 consisted of the following:

|  | As of December |          |
|--|----------------|----------|
|  | 31,            |          |
|  | 2018           | 2017     |
| Deferred tax assets:                             |                |          |
| Accrued payroll and other liabilities            | \$6,737        | \$7,010  |
| Share-based compensation                         | 6,150          | 5,674    |
| Deferred lease incentives                        | 4,100          | 4,352    |
| Tax credits                                      | 3,548          | 1,918    |
| Net operating loss carry-forwards                | 2,247          | 495      |
| Restructuring charge liability                   | 639            | 1,104    |
| Revenue recognition                              | 60             | 1,586    |
| Intangibles and goodwill                         | —              | 2,137    |
| Other  | 1,406          | 1,132    |
| Total deferred tax assets                        | 24,887         | 25,408   |
| Valuation allowance                              | (3,143 )       | (1,247 ) |
| Net deferred tax assets                          | 21,744         | 24,161   |
| Deferred tax liabilities:                        |                |          |
| Intangibles and goodwill                         | (6,665 )       | —        |
| Convertible debt investment                      | (5,934 )       | (3,110 ) |
| Property and equipment                           | (3,604 )       | (4,031 ) |
| Prepaid expenses                                 | (1,794 )       | (1,229 ) |
| Software development costs                       | (1,655 )       | (38 )    |
| Other  | (671 )         | (98 )    |
| Total deferred tax liabilities                   | (20,323)       | (8,506 ) |
| Net deferred tax asset for continuing operations | \$1,421        | \$15,655 |

As of December 31, 2018 and 2017, we had valuation allowances of \$3.1 million and \$1.2 million, respectively, primarily due to uncertainties relating to the ability to utilize deferred tax assets recorded for foreign losses and tax credits. The increase in valuation allowances in 2018 primarily related to an increase in the valuation allowance for foreign tax credits.

The Company has foreign and federal net operating losses of \$1.3 million and \$7.4 million, respectively, which carryforward indefinitely, and state net operating loss carryforwards of \$8.4 million which will begin to expire in 2022, if not utilized. The Company also has federal and state tax credit carryforwards of \$3.5 million which will begin to expire in 2019, if not utilized.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

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## HURON CONSULTING GROUP INC.

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A reconciliation of our beginning and ending amount of unrecognized tax benefits is as follows:

|  | Unrecognized<br>Tax Benefits |
|--|------------------------------|
| Balance at January 1, 2016                                   | \$ 3,223                     |
| Additions based on tax positions related to the current year | 117                          |
| Balance at December 31, 2016                                 | 3,340                        |
| Decrease due to lapse of statute of limitations              | (2,410 )                     |
| Decrease based on tax positions related to prior years       | (117 )                       |
| Balance at December 31, 2017                                 | 813                          |
| Additions based on tax positions related to prior years      | 115                          |
| Decrease due to lapse of statute of limitations              | (28 )                        |
| Balance at December 31, 2018                                 | \$ 900                       |

As of December 31, 2018, we had \$0.9 million of unrecognized tax benefits which would affect the effective tax rate of continuing operations if recognized. It is reasonably possible that approximately \$0.8 million of the liability for unrecognized tax benefits at December 31, 2018 could decrease in the next twelve months primarily due to the expiration of statutes of limitations.

As of both December 31, 2018 and 2017, we had \$0.1 million accrued for the potential payment of interest and penalties. Accrued interest and penalties are recorded as a component of provision for income taxes on our consolidated statement of earnings.

We file income tax returns with federal, state, local and foreign jurisdictions. Tax years 2015 through 2017 are subject to future examinations by federal tax authorities. Tax years 2011 through 2017 are subject to future examinations by state and local tax authorities. The Company is currently under audit by the states of New York and New Jersey. Our foreign income tax filings are subject to future examinations by the local foreign tax authorities for tax years 2011 through 2017.

## 17. Commitments, Contingencies and Guarantees

## Lease Commitments

We lease office space under non-cancelable operating lease arrangements expiring on various dates through 2028, with various renewal options. Our principal executive offices located in Chicago, Illinois are under a lease expiring in September 2024. We have a five-year renewal option that will allow us to continue to occupy this office space until September 2029. Office facilities under operating leases include fixed or minimum payments plus, in some cases, scheduled base rent increases over the term of the lease. Certain leases require monthly payments of real estate taxes, insurance and other operating expenses applicable to the property. Some of the leases contain provisions whereby the future rental payments may be adjusted for increases in operating expenses above the specified amount. Rent expense, including operating costs and taxes, for the years ended December 31, 2018, 2017, and 2016 was \$15.1 million, \$14.3 million, and \$11.5 million, respectively.

Future minimum rental commitments under non-cancelable leases and sublease income as of December 31, 2018, are as follows:

|            | Operating<br>Lease<br>Obligations | Sublease<br>Income |
|------------|-----------------------------------|--------------------|
| 2019       | \$ 13,701                         | \$ 1,922           |
| 2020       | 12,724                            | 1,407              |
| 2021       | 11,590                            | 1,203              |
| 2022       | 10,766                            | 1,156              |
| 2023       | 10,707                            | 1,202              |
| Thereafter | 27,033                            | 3,338              |

Total      \$ 86,521    \$ 10,228

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(Tabular amounts in thousands, except per share amounts)

Litigation

During the second quarter of 2018, we reached a settlement agreement related to Huron's claim in a class action lawsuit, resulting in a gain of \$2.5 million, which is recorded in other losses (gains), net on our consolidated statement of operations. We collected the \$2.5 million cash settlement during the second quarter of 2018.

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 Annual Report on Form 10-K, we are not a party to any litigation or legal proceeding that, in the current opinion of management, could have a material adverse effect on our financial position or results of operations. However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expected results.

Guarantees

Guarantees in the form of letters of credit totaling \$1.6 million and \$1.9 million were outstanding at December 31, 2018 and 2017, 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 December 31, 2018 and 2017, the total estimated fair value of our contingent consideration liabilities was \$11.4 million and \$22.8 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.

18. Segment Information

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

**H**Healthcare

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

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

**B**Business Advisory

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

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

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(Tabular amounts in thousands, except per share amounts)

build new ventures and capabilities, and accelerate organizational change. Our Life Sciences professionals provide strategic solutions to help pharmaceutical, medical device, and biotechnology companies deliver more value to patients, payers, and providers, and comply with regulations.

**Education**

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

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative expenses that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include costs for corporate office support, 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.

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(Tabular amounts in thousands, except per share amounts)

The tables below set forth information about our operating segments for the years ended December 31, 2018, 2017, and 2016, along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements. We do not present financial information by geographic area because our international operations are immaterial.

|  | Year Ended December 31, |             |           |
|--|-------------------------|-------------|-----------|
|  | 2018                    | 2017        | 2016      |
| Healthcare:  |                         |             |           |
| Revenues   | \$364,763               | \$356,909   | \$424,912 |
| Operating income   | \$108,060               | \$118,761   | \$147,903 |
| Segment operating income as a percentage of segment revenues | 29.6                    | % 33.3      | % 34.8    |
| Business Advisory:   |                         |             |           |
| Revenues   | \$236,185               | \$207,753   | \$151,543 |
| Operating income   | \$50,625                | \$46,600    | \$29,382  |
| Segment operating income as a percentage of segment revenues | 21.4                    | % 22.4      | % 19.4    |
| Education:   |                         |             |           |
| Revenues   | \$194,177               | \$167,908   | \$149,817 |
| Operating income   | \$48,243                | \$40,318    | \$38,310  |
| Segment operating income as a percentage of segment revenues | 24.8                    | % 24.0      | % 25.6    |
| Total Company:   |                         |             |           |
| Revenues   | \$795,125               | \$732,570   | \$726,272 |
| Reimbursable expenses  | 82,874                  | 75,175      | 71,712    |
| Total revenues and reimbursable expenses                     | \$877,999               | \$807,745   | \$797,984 |
| Segment operating income                                     | \$206,928               | \$205,679   | \$215,595 |
| Items not allocated at the segment level:                    |                         |             |           |
| Other operating expenses                                     | 122,276                 | 120,718     | 111,852   |
| Other losses (gains), net                                    | (2,019 )                | 1,111       | (1,990 )  |
| Depreciation and amortization                                | 34,575                  | 38,213      | 31,499    |
| Goodwill impairment charges <sup>(1)</sup>                   | —                       | 253,093     | —         |
| Other expense, net   | 26,875                  | 15,048      | 15,077    |
| Income (loss) from continuing operations before taxes        | \$25,221                | \$(222,504) | \$59,157  |

The goodwill impairment charges are not allocated at the segment level because the underlying goodwill asset is (1) reflective of our corporate investment in the segments. We do not include the impact of goodwill impairment charges in our evaluation of segment performance.

|                                   | As of December 31, |             |             |
|-----------------------------------|--------------------|-------------|-------------|
|                                   | 2018               | 2017        | 2016        |
| Segment Assets:                   |                    |             |             |
| Healthcare                        | \$65,133           | \$70,097    | \$69,274    |
| Business Advisory                 | 59,017             | 58,217      | 43,151      |
| Education                         | 26,990             | 31,367      | 33,094      |
| Unallocated assets <sup>(1)</sup> | 898,392            | 877,247     | 1,007,695   |
| Total assets                      | \$1,049,532        | \$1,036,928 | \$1,153,214 |

Unallocated assets include goodwill and intangible assets and our convertible debt investment, as management does not evaluate these items at the segment level when assessing segment performance or allocating resources. (1) Refer to Note 4 "Goodwill and Intangible Assets" and Note 12 "Fair Value of Financial Instruments" for further information on these assets.



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## HURON CONSULTING GROUP INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands, except per share amounts)

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

|   | Year Ended December 31, 2018 |                      |                  |                  |
|---|------------------------------|----------------------|------------------|------------------|
|   | Healthcare                   | Business<br>Advisory | Education        | Total            |
| <b>Billing Arrangements</b>                         |                              |                      |                  |                  |
| Fixed-fee   | \$239,263                    | \$98,119             | \$39,586         | \$376,968        |
| Time and expense                                    | 58,377                       | 128,583              | 140,824          | 327,784          |
| Performance-based                                   | 42,684                       | 5,405                | —                | 48,089           |
| Software support, maintenance and subscriptions     | 24,439                       | 4,078                | 13,767           | 42,284           |
| <b>Total</b>  | <b>\$364,763</b>             | <b>\$236,185</b>     | <b>\$194,177</b> | <b>\$795,125</b> |
| <b>Employee Type <sup>(1)</sup></b>                 |                              |                      |                  |                  |
| Revenue generated by full-time billable consultants | \$247,416                    | \$225,335            | \$170,496        | \$643,247        |
| Revenue generated by full-time equivalents          | 117,347                      | 10,850               | 23,681           | 151,878          |
| <b>Total</b>  | <b>\$364,763</b>             | <b>\$236,185</b>     | <b>\$194,177</b> | <b>\$795,125</b> |
| <b>Timing of Revenue Recognition</b>                |                              |                      |                  |                  |
| Revenue recognized over time                        | \$356,826                    | \$236,185            | \$190,526        | \$783,537        |
| Revenue recognized at a point in time               | 7,937                        | —                    | 3,651            | 11,588           |
| <b>Total</b>  | <b>\$364,763</b>             | <b>\$236,185</b>     | <b>\$194,177</b> | <b>\$795,125</b> |

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

For the years ended December 31, 2018, 2017, and 2016, substantially all of our revenues and long-lived assets were attributed to or located in the United States.

At December 31, 2018 and 2017, no single client accounted for greater than 10% of our combined receivables and unbilled services balances. During the years ended December 31, 2018, 2017, and 2016, no single client generated greater than 10% of our consolidated revenues.

**19. Valuation and Qualifying Accounts**

The table below sets forth the changes in the carrying amount of our allowances for doubtful accounts and unbilled services and valuation allowance for deferred tax assets for the years ended December 31, 2018, 2017, and 2016.

|  | Beginning<br>balance | Additions<br>(1) | Deductions | Ending<br>balance |
|--|----------------------|------------------|------------|-------------------|
| <b>Year ended December 31, 2016:</b>                   |                      |                  |            |                   |
| Allowances for doubtful accounts and unbilled services | \$ 16,886            | 48,901           | 44,528     | \$21,259          |
| Valuation allowance for deferred tax assets            | \$ 2,242             | 113              | 1,729      | \$626             |
| <b>Year ended December 31, 2017:</b>                   |                      |                  |            |                   |
| Allowances for doubtful accounts and unbilled services | \$ 21,259            | 43,888           | 40,648     | \$24,499          |
| Valuation allowance for deferred tax assets            | \$ 626               | 793              | 172        | \$1,247           |
| <b>Year ended December 31, 2018:</b>                   |                      |                  |            |                   |
| Allowances for doubtful accounts and unbilled services | \$ 24,499            | 49,390           | 51,648     | \$22,241          |
| Valuation allowance for deferred tax assets            | \$ 1,247             | 2,314            | 418        | \$3,143           |





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Weighted average shares used in calculating earnings per share:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | 21,239 | 21,492 | 21,505 | 21,515 |
| Diluted | 21,474 | 21,492 | 21,622 | 21,515 |

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