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HURN - Q1 2012 Huron Consulting Group Inc. Earnings Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss financial results for the first quarter 2012. (OPERATOR INSTRUCTIONS.) As a reminder, this conference is being recorded.

Before we begin, I would like to point all of you to the disclosure at the end of the company's news release for information about any forward-looking statements that may be made or discussed on this call. The news release is posted on Huron's website. Please review that information, along with the filings with the SEC for a disclosure of factors that may impact subjects discussed in this morning's webcast. The company will be discussing one or more non-GAAP financial measures. Please look at the earnings release and on Huron's website for all of the disclosures required by the SEC, including reconciliation to the most comparable GAAP numbers.

And now I would like to turn the call over to Jim Roth, Chief Executive Officer and President of Huron Consulting Group. Mr. Roth, please go ahead.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Good morning and welcome to Huron Consulting Group's First Quarter 2012 Earnings Call. With me today are Jim Rojas, our Chief Operating Officer; Mark Hussey, our Chief Financial Officer; and Patty Olsen, our Corporate Vice President of Human Resources.

I will spend a few minutes talking about our Q1 performance and our outlook for the rest of the year and will then turn it over to Mark for a more detailed discussion of the financials.

Our first quarter performance in 2012 -- which was below our expectations -- was similar to the way we started 2011, with revenue impacted by a lower-than-expected level of contingent fees within our Healthcare practice. As we have discussed on previous occasions, the timing of contingent revenues is very difficult to predict. I will provide some color on the contingent fees in a few minutes when I discuss the individual practices.

Total Huron revenue came in at $138.6 million, a slight increase from Q1 2011, while utilization remained solid overall at 77.6%, down slightly from Q1 2011.

The Health and Education Consulting segment, which had utilization of 79.5% in the first quarter, increased revenue by 2% compared to last year. Legal Consulting revenues increased nearly 11%, enhanced by a solid quarter from the Legal Advisory service line. Financial Consulting had a soft first quarter.

I will now discuss the individual practices, starting with the Health and Education Consulting segment.

Revenue in the Healthcare practice increased in the upper single digits compared to first quarter 2011. Contingent fees were relatively low compared to the end of 2011, coming in at $15.5 million. As our current portfolio of Healthcare engagements develops throughout the year, we expect some of our largest engagements in this practice will have contingent fees that are likely to be recognized in the second half of the year. Utilization in the Healthcare practice for the first quarter was strong, and we expect this trend to continue into the second quarter. The number of hospitals where we are doing assessments is increasing, and our pipeline for new assessment opportunities continues to look solid as well.

Our Clinical Services practice has been making significant process as we position it to be the fastest-growing part of the Healthcare practice.

The Higher Education and Life Sciences practice saw a drop-off in revenue compared to Q1 2011, which was not a surprise. As we have discussed in prior quarters, this practice faces tough comparisons given the conclusion of a technology engagement for one of its largest Higher Education clients. The tough comparisons mask what was actually a very good quarter for this practice. The Higher Education Consulting and Life Sciences service lines were both very strong in the first quarter, with utilization in excess of 75%. The Higher Education Technology service line is building a solid backlog, particularly reflecting synergies with the Click solution offering. Looking ahead, we expect overall performance of the Higher Education and Life Sciences practice to be strong throughout the rest of the year, reflecting continued solid market demand.

The Legal Consulting segment had an 11% increase in revenue compared to Q1 2011. While the Legal Consulting service line of this segment had a solid quarter with positive revenue growth, the Advisory service line continued to improve its operation, with utilization in excess of 70%, resulting in its best quarter since 2008. Our market position in the competitive legal consulting -- legal services arena remains strong, and while the predictability of the large e-discovery projects makes it difficult to project quarterly growth, we remain comfortable with our original plan for the Legal Consulting segment.

Finally, our Financial Consulting practice, which represents about 4% of Huron's total revenue, had a weak quarter. While the underlying business remains steady, we have not yet been able to replicate some of the larger restructuring and turn-around projects that we had in 2011. The number of opportunities that we are pursuing remains strong and our personnel in this practice remain focused and relevant in the market. We have made some minor personnel adjustments as we await a pick-up in activity within the segment.

Before I turn it over to Mark, let me provide some final comments on our Q1 performance and our view for the rest of the year. First, we are reaffirming our annual guidance of $620 million to $660 million. Although we are no longer providing contingent fee guidance, we expect our contingent revenues in the remaining quarters of 2012 to increase consistent with our revenue guidance. Similar to what we experienced in 2011, we expect a sizeable pick-up in contingent revenues during the balance of the year as we realize the benefits of the current productive hours being spent on engagements.

We are affirming revenue guidance based on the fundamental strengths of market demand in our two largest segments. Utilization was strong in the Health and Education and the Legal Consulting segments during the first quarter, and we are looking to have even stronger utilization in each of our three segments in the second quarter. Demand for our services remains high as the health and education markets continue to transition through challenging times and the legal market continues to have a strong demand for cost and information management.

Our earnings for Q1 were impacted by the fact that we are accruing our annual incentive compensation based on our full-year outlook rather than the results of the first quarter. Given that we expect stronger revenues in subsequent quarters due primarily to increased contingent revenue and ongoing strength in our core markets, our bonus accrual was significantly higher as a percentage of our first quarter revenues. Assuming our revenue expectations in subsequent quarters are achieved, we expect the bonus accrual to remain steady for the balance of the year and, as a result, our operating margins will improve in future quarters.

Finally, we remain on pace to achieve our recruiting goals for 2012. Our attrition rates, which typically have been lower than industry norms, have actually been lower than we had expected, enhancing the likelihood that we will achieve revenue and earnings goals for the year.

Now let me turn it over to Mark to discuss our first quarter results.

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

Thank you, Jim, and good morning, everyone.

Let me begin by discussing a few housekeeping items. Consistent with our past practice, I will be discussing our financial results primarily in the context of continuing operations. I will also be discussing non-GAAP financial measures, such as EBITDA, adjusted EBITDA, adjusted net income and adjusted EPS. Our press release, website and 10-Q each have reconciliations of these non-GAAP measures to the most comparable GAAP measures, as well as a discussion of why management uses these non-GAAP measures.

I will now walk you through some key financial results for the quarter.

Revenues for the first quarter of 2012 were $138.6 million, up 1.5% from $136.6 million reported in the same quarter of 2011.

EBITDA for the first quarter of 2012 was $9.4 million, compared to $16.5 million a year ago. As Jim mentioned, this reflects an increase in bonus expense which impacted Q1 2012 disproportionately as a percentage of quarter revenues. We record our incentive plan accruals based on the midpoint of our forecast for the entire year and not the results of any one quarter. Since our revenues for subsequent quarters are expected to increase over first-quarter results, we also expect our margins to increase as the year progresses. The other primary factor affecting EBITDA was an 11.9% increase in our average full-time billable headcount. These resources were relatively productive as measured by our utilization levels. For Q1 2012, utilization was 77.6%, compared with 78.2% a year ago. I will provide some additional color when I discuss the reporting segments in a few moments.

Adjusted EBITDA was $11.8 million in Q1 2012, or 8.5% of revenues, compared to $18.8 million in Q1 2011, or 13.8% of revenues. Adjusted EBITDA excludes a number of items which are listed in our press release.

Operating income was $3.6 million, or 2.6% of revenues, in Q1 2012, compared to $10.8 million, or 7.9% of revenues in Q1 2011. Net income from continuing operations was $600,000, or $0.03 per diluted share, in the first quarter of 2012, compared to $3.5 million, or $0.16 per diluted share, in the same period of 2011.

Adjusted non-GAAP net income from continuing operations was $3 million, or $0.13 per diluted share, in the first quarter of 2012, compared to $6.2 million, or $0.29 per diluted share, in the same period of 2011.

Our effective income tax rate increased to 72.1% in the first quarter of 2012 from 52.7% in the first quarter of 2011. The effective tax rates for both periods were higher than the statutory rate due primarily to the impact of foreign losses with no tax benefit and certain non-deductible expenses in relation to the lower level of reported pre-tax income. On a full-year basis, we continue to expect our tax rate to be 45%.

Now let's look at how each of our reporting segments performed during the quarter.

The Health and Education Consulting segment generated 66% of total company revenues during the first quarter of 2012. This segment posted revenues of $91.4 million for the first quarter of this year, a 2% increase from $89.7 million in the first quarter of 2011.

Operating income margin for Health and Education Consulting decreased to 23.5% for Q1 2012 from 28.9% for the comparable quarter in 2011. The lower operating income margin in this segment reflected the increase in bonus expense as a percentage of revenues as discussed earlier, as well as a 16% increase in billable consultant headcount compared to the first quarter of 2011. Both of these factors reflect our view of increasing demand in the markets we serve, as well as the strength of our position to meet that demand. While this increase in demand was not fully reflected in our first-quarter revenues, we remain confident that revenues and operating income margin will increase as the year progresses.

As Jim mentioned in his remarks, utilization reported within the Health and Education Consultant segment continue to be solid. For the first quarter of 2012, utilization was 79.5%, compared to 81.2% last year. Performance-based fees in the first quarter were approximately $15.5 million, compared to $13.8 million during the first quarter of 2011. Performance-based fees can cause significant variations in quarterly revenues, depending on the timing of achievement of performance-based criteria.

Our Legal Consulting segment generated 30% of total company revenues during the first quarter of 2012. This segment posted revenues of $41.4 million in the first quarter of 2012, up 11% from $37.3 million in the comparable quarter in 2011. This growth was driven by both our Advisory services and our Document Review and Electronic Discovery services. Our full-time billable consultant utilization rate in this segment increased to 70.7% during the quarter from 55.9% a year ago, reflecting increased demand in the advisory business.

The operating income margin for our Legal Consulting segment was 23.0% in the first quarter of 2012, compared to 25.7% in the first quarter of 2011. The decrease in this segment's operating margin was attributable to higher salary, bonus and related expenses for our revenue-generating professionals and higher technology expense and facilities expenses for our document revenue centers as a percentage of segment revenues. Similar to the Health and Education Consulting segment, the increase in personnel expense reflects higher expected bonuses and increased headcount from a year ago.

During the first quarter of 2012, our Financial Consulting segment generated 4% of total company revenues. This segment posted revenues of $5.8 million in Q1 2012, compared with $9.6 million in the same quarter of 2011.

The operating income margin for Financial Consulting declined to 4% in Q1 2012 from 30.8% in the same quarter of 2011, primarily due to salaries and related expenses as a percentage of lower revenues. As the segment continues to broaden its service offerings, we are encouraged that revenues and operating income margins will improve as the year progresses.

Now turning to the balance sheet and cash flows. DSO came in at 71 days for the first quarter of 2012. With respect to cash flows, we had negative cash flows from operations of $12.6 million. A net use of cash in operating activities is typical for us during the first quarter due to bonus payouts. As in previous years, we expect that net cash flows from operations will improve as the year progresses. We also made an earn-out payment at the end of Q1 of $31.3 million related to a prior acquisition.

Our outlook on full-year guidance has not changed since our Q4 comments. And to affirm our previous numbers, for the full year we expect revenues before reimbursable expenses in a range of $620 million to $660 million; adjusted EBITDA in a range of $113.5 million to $123.5 million. We anticipate adjusted non-GAAP net income in a range of $50.0 million to $55.5 million, and between $2.25 and $2.50 per share in adjusted non-GAAP EPS.

Thanks, everyone, and now I would like to open the call to questions. Operator?

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS.) Our first question comes from the line of Tim McHugh with William Blair. Please proceed.

Tim McHugh - *William Blair & Company - Analyst*

Yes. Thanks. First, can you just talk about the contingent fees. Were there -- talk about if there are any issues with kind of the performance on contracts and being able to earn those fees or if there's been any shift in the contract in terms of the mix between kind of fixed fees or time and materials versus the contingent fee that clients are asking for.

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

Good morning, Tim. This is Jim Rojas. In terms of contingent fees, no -- there hasn't really been a shift. In terms of the mix of what clients are asking for in terms of fixed fee versus contingent -- sometimes that's a factor of the jobs that we are currently selling. And right now we have seen some of our assignments that Jim had mentioned in his comments -- some larger assignments -- where we do have more of a contingent mix. But overall, we don't see, in terms of numbers of engagements, that there's any more of a shift from the fixed to the contingent fees.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

And Tim, this is Jim Roth. There's also no indication at all that there's any issues with respect to our ability to achieve the contingent revenues. That's not an issue at all. I think -- and we're not -- I don't think we can subscribe any seasonality to this. This just happens to be a reflection of the fact that we have a series of very large engagements right now where the contingent benchmarks that we have to hit tend to be later on in the year. I don't know if it's an indication -- I don't think it's an indication of any trend at all; it's just -- it's the portfolio that we have right now. The jobs that we're working on are going very well and we're very comfortable with how things are progressing at the various hospitals. So as Jim indicated, I don't think there's any reason to believe that there's a dramatic change in the overall mix from contingent versus fixed, nor is there any indication of any problems with the ongoing assignments.

Tim McHugh - *William Blair & Company - Analyst*

In your comments, you used the second half of the year a couple times in talking about the contingent fees. Should that imply that we should expect Q2 to be not quite as strong as the second half of the year? And then also, you made some comments about Q2 utilization being up. I'm assuming that implies something about the trends you've seen so far in Q2. So maybe you could just elaborate on those two.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Sure. In general, we continue to be very busy. I think our utilization that we saw in the first quarter was strong and there's been no change. In fact, there's probably been a slight up-tick from what we've seen so far. So I think we feel pretty comfortable about the overall demand for our business, which is really one of the fundamental reasons why we're confident about our guidance. Whether the metrics are going to come in in the second quarter or the second half, it's just -- again, it's hard for us to predict when they're going to come in. You've seen before where we've had surprises up and surprises down in terms of the flow of contingent fees. So I think with the comment that we're trying to get across is that we expect to see a very steady increase in the level of contingent fees throughout the rest of the year, and whether they come in the second quarter or second half, it's a little bit hard for us to predict right now.

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

And Tim -- this is Jim Rojas. I'll expand on one thing that Jim Roth had said in terms of utilization. We've seen a 300-basis-point increase from Q4 into Q1, and we still continue to aggressively hire people. So we are bringing on people and they are productive. And as Jim had mentioned also, our retention rates for folks were better than we had anticipated as well. So we're setting ourselves up for having a workforce that's very productive in terms of delivering on the results that we've set for the rest of the year.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And then last one for me. I guess the education practice -- you mentioned is was down year over year, mainly because of that University of Wisconsin project. Can you -- are you willing to tell us if it was growing excluding that project, and if so, by how much? Kind of what's the underlying trend? And then one more -- when do we -- so when can we see that growth? So when are we past the comparisons for that business?

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Yes. We had -- the project that you're referring to was a large technology project that actually had a go-live of -- in -- if I'm correct, I think it was in the April/May timeframe of 2011. And that was the point in time at which we had -- that first quarter, going up to the go-live period is the point in time where we had the largest complement of our people on there. So that's what has set up for us some fairly difficult comparisons. I will say that the Higher Ed and Life Sciences practice has been recruiting very heavily. Their FTE count is up. Their utilization is about probably as high as it's been, and demand for the collective set of services that we offer is very strong. The technology practice, as we indicated -- which has probably been the lowest -- the -- has performed a little bit less than everything else in terms of growth rates, certainly compared to last year -- also has a very nice mix of opportunities coming up that -- in the course of the year. So I don't know how to -- I don't know if we've ever gone back and tried to take out the large project that we've referred to and determine if we're up, but I suspect strongly that we would be if that was the case.

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

It's relatively flat, Tim. It's up -- it's kind of flattish, is how I would describe it, if you take out Wisconsin.

Tim McHugh - *William Blair & Company - Analyst*

Okay.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

I think the part that we're looking at right now is we have a very strong complement of opportunities coming up. As we've said on a number of occasions, similar to what's happening in Healthcare, there's a lot of change taking place, both in higher education and in life science markets, and we, I think, are certainly going to be the beneficiaries of a lot of that demand, as far as we can tell into the future.

Tim McHugh - *William Blair & Company - Analyst*

Okay. Great. Thank you.

Operator

Your next question comes from the line of Dan Leben with Robert W. Baird. Please proceed.

Dan Leben - *Robert W. Baird & Company - Analyst*

Great. Thanks. Just first, in Health and Ed, the drop in the bill rate there -- even if you adjust for the contingent fees -- was down year over year. Is that related to the education project or is that more about the mix of these large deals right now moving a little more towards contingent fees?

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

It's really -- Dan, it's Mark. It's really related to the mix of the larger deals --

Dan Leben - *Robert W. Baird & Company - Analyst*

Okay.

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

Versus education.

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

And then the -- and this is Jim Rojas. And the deals are primarily within Healthcare. While -- and Jim had mentioned we have engagements where we'll have contingent fees in the second half of the year, those right now, as you know, we're putting in many hours that are at a less of a bill rate for -- then when you do collect the contingent fees, you get back to a normalized billing rate for the whole yearly period. But that's really what's driving the rate issue.

Dan Leben - *Robert W. Baird & Company - Analyst*

Great. And can you help us understand the level of bonus accruals that were going on, just maybe in terms of percentage of compensation or something so we can understand how much flexibility there is to the margin upside?

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

We're thinking about how to best portray, Dan. I think the answer is that the fixed amount for the -- if you look in the quarter, it was -- in terms of margin impact, about half of the decrease was -- I would attribute to higher bonus levels of expense. So going forward, that being fixed as revenue goes up, should enable you to start to model in some upside from the bonus levels.

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

Dan, it's hard to answer a percent of revenue because as the revenue shifts from the year with the amount fixed, it's actually different in each period of time. So I think the way Mark explained it in terms of a fixed dollar amount is probably the best way to analyze it.

Dan Leben - *Robert W. Baird & Company - Analyst*

Yes. I was thinking of it more in terms of percentage of compensation expense -- if there was a ratio there that would be helpful.

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

I'd say the concern with that is that it changes as a percentage as performance of the business improves, too.

Dan Leben - *Robert W. Baird & Company - Analyst*

Okay. Great. And then last one from me. Just a lot of headlines around revenue cycle in the last few days. Could you just talk a little bit about some of the dynamics in your practice that help insulate you from some of those issues?

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Yes. Dan, this is Jim Roth. There's a couple things. We certainly anticipated this question in light of some of the recent events. I think there's a couple things that differentiate us. And historically, when hospitals have looked for assistance with revenue cycle, they've had one or two options, essentially. One of them would be to contract out with a firm like Huron to do consulting services and -- where we provide guidance to the hospital employees.

The second option would be, of course, to essentially have an outsourced staffing service. And we are obviously the former. We provide consulting services to the hospital. We have no contact with patients. And really, it's a very, very different model from what we've typically done. We don't -- I think in an outsourced model, you essentially are re-badging the consulting firm to become hospital employees and they've got much more contact and internal contact with the patients. That's not the case at all in our model right now. So the fundamental differences are the nature of consulting services versus outsourced staffing, and then secondly, the lack of contact with patients.

Dan Leben - *Robert W. Baird & Company - Analyst*

Great. Thanks, guys.

Operator

Your next question comes from the line of Jim Janesky with Avondale. Please proceed.

Jim Janesky - *Avondale Partners - Analyst*

Yes. Good morning. With -- of course, with the amount of bonus accrual, you obviously -- even though you didn't give guidance either annually or quarterly for success fees -- you expected a lot more. You can see the magnitude of the hit on the margins. Have any of those come in yet so far in the month of April?

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

You know what, Jim? There's ebbs and flows. We have contingent fees that come in probably -- if not weekly, it's biweekly on our assignments. So that's hard to say. Some of the ones that we had anticipated coming in in -- during Q1 -- if they've pushed to Q2, some of those have come in. Other ones that we didn't anticipate would come in as early as they did come in. So that's why we constantly talk about the ebbs and flows of it. What we do is we have a portfolio of projects that we have that our folks do a great job of managing out in the field in terms of the expectations of what our clients are, and then also our own internal expectations as to what types of revenue that drives. And you know what? That ebbs and flows with what happens out at our clients and the amount of business that they have. So it's hard to say, "Did we get those? Did we not get those?" I would just say that we constantly and continue to receive those almost every week.

Jim Janesky - *Avondale Partners - Analyst*

Okay. And sequentially, in 2011, you went from about $14 million in success fees in the first quarter to $34 million in the second quarter. What was unusual about that timeframe compared to this year that that type of seasonality -- if I may use that word -- would or potentially would not occur in 2012? That was a big sequential jump.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Jim, this is Jim Roth. One of the things to realize about these success fees is that they get -- we can recognize revenue in a variety of ways. The obvious first one for us is do we meet the metrics that we've set up with the client at the front end of a project. So that's the first hurdle that you've got to get over. And so there's a whole series of things you've got to go through to demonstrate that the objectives that have been set out have, in fact, been met. The second issue that comes up is then getting the client to sign off, and the client sign-off varies from client to client. Sometimes it's done by levels of senior management, sometimes it's going to be done by the CEO and sometimes it's going to be done by the board. And that requires a set of sign-offs and so you may have the operational approval already, but you may not have the formal sign-off. And if we don't have the formal sign-off, we simply can't recognize the revenue. And so there are things that can easily swing some of these amounts from one quarter to the other. And if you go back and look at our performance historically over the last couple years at least, you'll notice that there's been a couple of times that we've had -- that things have come in quicker than we had anticipated; other times they come in slower, and it's for any number of reasons. Similarly, we can have contingent fees that come in more or less than we had anticipated. I think it's relatively rare for us if they come in less than we anticipated. It's more of an issue of timing. But occasionally, they come in more. So that's why we have kind of made a pretty strong effort to get away from the quarterly -- even the annual guidance on the contingent revenues because it's just so hard to measure these. Internally, we look carefully at the ebb and flow of each of the engagements that we have and when they're going to be hitting, but there are things that happened in Q1 -- I'm sorry -- Q2 2011 that -- some of which could have just as easily happened in Q1 2011 absent one or two meetings or something like that. So it's really -- it looks to be a very dramatic difference. From our end of things, it's the normal ebb and flow of what happens as we go through and perform the work and get approval. And so I know that this is why -- it looks lumpy. We wish it were otherwise, but it's just the way the projects go. What we monitor very carefully is our performance against our stated objectives on every single engagement, and we closely monitor when and where -- how much and when we think they're going to come in. But they change and the best thing that we can do would be to manage the project to the client's expectations over the course of the entire project, and we spend less time focused on the timing and more time focused on making certain that we deliver the results.

Jim Janesky - *Avondale Partners - Analyst*

Okay. Within the Legal segment, you folks had talked about some large -- a larger -- large projects winding down and that was the sequential difference in Legal Consulting from the fourth to the first quarter. Can you give an idea about the e-discovery market and your project size pipeline versus Legal Consulting and what -- demand in e-discovery and pricing trends?

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

I'll start with the last question that you had. We've really not seen pricing trends change very much over the last 3 or 4 quarters. I would say previous to that there were -- there was more price competition in the marketplace. Not to say that price isn't important but it is extremely important to our clients, but it's not sort of the leading thing that we're seeing in terms of differentiation. Obviously, with the mortgage crisis in the latter half of last year that drove a significant amount of business for many people within the electronic discovery space. What we -- what I would say is that in terms of the way that we look at our pipeline and the way that we look at our backlog, we expect so much revenue from our large MSA clients. We also have projects that we know that we have sold. And then you have the difference as to what we think the business should produce. That difference isn't any different than any other quarter that we've had. We don't see any large-type engagements that are dominating that right now, nor do we see an incredible increase in the litigation market. What we do see is sort of that steady hard work that our folks do every day in trying to produce revenue, and we continue that it's going to be that way. We're not forecasting that we're going to have any large -- one large matter that's going to drive our revenue as opposed to just delivering every day like our people do.

Jim Janesky - *Avondale Partners - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Tobey Sommer with SunTrust. Please proceed.

Tobey Sommer - *SunTrust - Analyst*

Thank you. Shifting gears a bit, could you comment on what your plans are for capital deployment now that you're past what I believe to be the last earn-out payment related to prior acquisitions and this year's cash flow and next is kind of more at your disposal to place where you'd like. Thanks.

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

Hi, Tobey. This is Mark. So in terms of priority for the company, really growth through acquisition is the number one. Where we have opportunities in the marketplace to enhance service lines, more than likely with tuck-in of smaller, potentially medium-sized acquisitions are things that we are actively always looking for in the marketplace. So absent that, really we get to the point where we will have paid down out of our revolver and down to the level of our term loan, and then at that point, we have a decision to make in terms of what to do with that cash. I would just describe it as it's an active conversation among the board and the management to determine what is the best use of capital and use the balance sheet to create value. And I would say, at this point, just based on the timing of our cash flows, we're not in a position, just based on wrapping up the Q1 payments. But it's probably something that will be really more top-of-mind in Q2 and then in future quarters as we come to various decision points, either looking at specific deals as they come up or with respect to longer-term deployment of capital.

Tobey Sommer - *SunTrust - Analyst*

Thanks. As a follow-up, I think you mentioned that internal consultant attrition was lower than expected. Could you give us some parameters for what historical trends have been versus what you've seen more recently? Thanks.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Tobey, this is Jim Roth. The -- historically, we have had -- I think our attrition rates have been lower than a lot of our competitors. We -- I think in 2011, we had turnover of about just under 18%. And I think so far this year, I think on an annualized basis we're probably going to be -- we're trending lower than that. It's hard to tell exactly how much, but probably close to 15% or something like that. So we feel pretty comfortable with where that's at right now. And the broader issue, I think, in terms of recruitment, which is an important part of our growth strategy, is, I think, the strength of our underlying business. The market share that we have -- it really provides an opportunity for people. It would be very attractive to come to Huron. And that's a piece of our strategy that I can't even highlight how important it is to us because it's so critical. We think we've got a very fertile environment for people to grow their careers here. We feel like we're in a very solid space that has a lot of growth opportunities, not just for the company but for the people that work here. And so we do a lot in terms of talking about values and cultures internally to make sure that we have an environment where we're retaining our best people and attracting the best people as well. We feel very comfortable with that. Organically -- Mark mentioned the fact that acquisitions will certainly be a part of our overall growth strategy in the future, but we also expect to have a very heavy complement of organic growth to supplement that, in part because I think it's the piece that we're most comfortable with and it's also the part that I think we've been very successful with in the past.

Tobey Sommer - *SunTrust - Analyst*

Last detailed follow-up question. I believe in your prepared remarks you mentioned contingent fees in Healthcare around $15.5 million in the quarter. If you gave the comparable dollar amount for the year-ago quarter, I didn't get it. Could you tell us what that is?

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

13.8, Tobey. 13.8.

Tobey Sommer - *SunTrust - Analyst*

So you were expecting significant growth that just wasn't realized. It's not as though the success fees were lower than a year ago.

Mark Hussey - *Huron Consulting Group Inc. - Chief Financial Officer*

No, they were actually higher than a year ago, but we were expecting them to be much higher than they came in.

Tobey Sommer - *SunTrust - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Paul Ginocchio with Deutsche Bank. Please proceed.

Paul Ginocchio - *Deutsche Bank - Analyst*

Thanks for taking -- sorry if I missed this, but it looks like the sort of General Counsel consulting business ex-e-discovery was up year on year -- I think it's -- could you talk to that business how -- I think it's now been up for a couple quarters -- how that's trending? And then, again, you may have already touched on it, but again, it looks like utilization was up for legal consulting overall but margins were down a little bit. And just -- again, is that just all bonus accrual? I think you've said that there's no pricing or is there something else? Thanks.

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

Paul, I'll start with the advisory business within Legal first. And this has been a trend where we've had probably 6 to 7 quarters in a row where we've had increasing revenue and increasing utilization. And it was really -- and we've talked about it before -- a repurposing of the folks that we had in that practice to make sure that we were delivering the right types of services that our General Counsel customers wanted and needed. And the practice has done a very good job in terms of refocusing, hiring new skills and deploying them in a way that's resulting in better utilization and better revenue. Your second question was in terms of margin, and in the prepare remarks, within Healthcare, the bonus definitely was the main driver in terms of what the margin difference was. Within Legal Consulting, it was primarily salary and bonus, but also we had some larger facility cost which is associated with our new facilities in the New York market area and also in India.

Paul Ginocchio - *Deutsche Bank - Analyst*

Perfect. Thank you.

Operator

Your next question comes from the line of Joseph Foresi with Janney. Please proceed.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Hi. I was wondering if I could ask the demand question maybe a different way. I know contingency fees can fluctuate. That's obviously what we've been talking about. But can you give any color around the number of hospital engagement and how that's increased or decreased versus last year? And any other anecdotal client information that you could provide that would provide some confidence about demand.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

This is Jim Roth. We don't give data that supports the number of assessments that we're doing. I think the comment that we made and I -- is that there's really -- there's work that we're doing at existing clients, there is -- there's assessments that are currently underway, and then there's assessment opportunities that we're pursuing where we're talking with hospitals about the prospects of doing an assessment. And I think, suffice to say, there remains a very steady demand on all three aspects of that. And what's driving is the same thing we've been talking about -- the fundamental economics in healthcare continues to be very challenged and that's really what's driving the business, and we feel very comfortable with the flow of possibilities coming up and, of course, the work that's currently underway. We continue to have a very good track record of converting assessments into actual work and the reason we tend not to give too much of the information regarding the actual number of assessments is because they can vary dramatically in size. We may have -- you could have a large up-tick in the number of assessments but they could be small, or you could actually have a drop-off in the number of assessment and it could end up resulting in higher revenues. So the mix is so important and we typically -- we don't typically provide the detail behind that, other than to talk more specifically about the underlying demand in the market.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. That's fair. But maybe just for color purposes, on the assessment side of things, are you seeing an increase compared to last year. If we were looking at this point last year, is the momentum behind and the numbers increasing?

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

I think, again, the numbers can be misleading. I think we're seeing demand opportunities that, at this stage, are very consistent with the guidance that we've provided from a revenue perspective. And that -- to us, that means that we're looking forward to the opportunities that we have -- we think are going to generate the revenues that we have in our guidance at this stage. And that's -- we'll probably have to leave it at that.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

We prefer not to talk -- again, the rationale for not wanting to get too specific about the individual number of assessments and the conversion rates is because you then -- really to have it be meaningful at all, you'd have to go back in and talk about the size of each one of them, and it's just -- that's impractical to do.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Sure. That's fair. And then kind of just for clarity's sake on the contingency fees, how's the -- what's the right way to think about them? Is it a foregone conclusion that you get the contingency fees -- maybe what percentage do you get and -- I'm just trying to get a good feel for -- are these expected and the timing is just the issue? And how often do you not get contingency fees and has that changed?

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

I would say that it's -- when we start out a project -- again, what gives us -- before we sign an agreement with a hospital, we go through the assessment. And the assessment, among other things, give us a pretty good indication as to what we're up against, and it gives the hospital an opportunity to kind of have a sense as to what they want to accomplish and what they're willing to pay for it. So that's that kind of negotiation that we all do after we have the assessment. And then once we start the engagement, we're doing it -- we've got -- we typically will start an engagement with fairly strong confidence that we can achieve the stated objectives. And again, we do that because we have the insight that's been provided through the assessment and also a large degree of experience in having done this before. I would say it's not -- there have been relatively minor number of occasions where we have not hit the financial targets that we set out to do -- is rare. There are occasions, certainly, where we exceed the benchmarks that we're looking for, and therefore, our contingent fees end up being more than we had anticipated. More often than not, we get what we set out to do. The hospital gets the value that we promised to deliver and it just is a question of timing. And we have seen the timing be delayed and we've seen the timing be accelerated. And so if you combine the complexity of trying to predict timing with the actual results, it gets to be pretty tricky. That's -- and hence, some of the variations that you see in the contingent fees. It's kind of a long answer, but I hope it answers the question that it's just a mix, but we typically will get -- I think more often than not -- well, on a vast majority of our work, we get what we've set out to do.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. That's very helpful. And the last question from me is just as we look at Obamacare coming up in front of the Supreme Court and maybe some of the potential regulatory changes that could take place, is there anything that you see out there on the horizon that could affect demand from a larger macro type of view? I guess is there anything that could maybe slow or pause decision-making that you see at this point?

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

At this stage, I don't think so. We said -- whatever it was -- 12, 18 months ago when kind of healthcare reform was beginning to become talked about a lot more -- we said that we didn't think that healthcare reform -- whether it passed or not -- was going to have that much of an impact on our business -- that there were other market forces that were impacting it more than the legislation would otherwise do. Now that we're up against an affirmation or rejection by the Supreme Court or some or all of the healthcare reform, I think our position is the same. What we have seen is that there are market forces that are taking place right now that are forcing hospitals to be a lot more efficient, to coordinate care much more and to achieve operating efficiencies. And in many respects, they have nothing to do with the legislation and they have a lot more to do with the fact that there's just market demand right now that is really forcing the hospitals to accomplish these things. So in order for them actually to accomplish that coordinated care, to accomplish those operating assessments, they turn to firms like Huron to help them with that assessment. So I don't think that -- irrespective of what happens with the Supreme Court rulings in June, I think it's not going to impact what is right now, I think, a market-driven change in the healthcare arena, and I think we will continue to be the beneficiaries of that. Of course, the federal and state economics are not good, and they, too, have a tendency to impact the margins, whether it be through the payment of Medicare or Medicaid, so that's another factor that tends to put pressure on the hospitals. So between the market forces and the financial pressures, we think things will continue to be the way they are, if not get worse, for some time to come.

Joseph Foresi - *Janney Montgomery Scott - Analyst*

Okay. Thank you.

Operator

(OPERATOR INSTRUCTIONS.) Your next question comes from the line of William Sutherland with Northland Capital. Please proceed.

William Sutherland - *Northland Capital Partners - Analyst*

Thanks. Call me Bill. So just one more on the contingency fee situation, because I keep looking back at Q1 last year and just obviously similar numbers, but obviously you weren't expecting that level. So what -- is there a -- is -- I guess one question is is the first quarter a particularly tricky one, just given calendar issues at the client to kind of tag where these are going to come in? And was there any relationship to how strong the level was at the -- in the part -- in the latter quarters of '11? Maybe there was a -- more of a late-quarter decision-making process in this current quarter. Thanks.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Bill, this is Jim Roth. Again, even though the data points have been similar in -- Q1 2012 as they were in the first quarter of 2011, I really think that there's not enough data points to indicate that there's any seasonality or cyclicality. In the end, we -- it's just the portfolio of projects that we have and when we signed up to do them and when the financial benchmarks had to be hit. It's just a factor of that. We could just as well sign up two large engagements in July and have -- or three large engagements in July and have there be -- our projects tend to be 12 to 18 months in duration. So if we signed up three projects in July, you'll see something similar in the second or third quarter of 2013. So as much as it -- even though we've got two years in a row where things are like this, I just don't think there's anything about the seasonality or cyclicality to what we're talking about. It's much more of a reflection of the timing of when these things got signed.

William Sutherland - *Northland Capital Partners - Analyst*

Okay. In the Financial Consulting group, should we still think about [zero] to 5% revenue growth there for the year?

Jim Rojas - *Huron Consulting Group Inc. - Chief Operating Officer*

Bill, this is Jim Rojas. Yes. That still is our assumption and we're not changing it and we're not changing our guidance. So we still feel like that group is, as Jim said in his comments, very active in the marketplace and we were the beneficiaries of two large debtor-side projects in Q1 of last year that we did not have in this quarter, but we feel like the group is very active in doing all those things that will result in them hitting our targets for them.

William Sutherland - *Northland Capital Partners - Analyst*

Okay. And then I guess last for Jim Roth. You mentioned how the clinical effort is building nicely. Maybe you can give us some color there -- give us a feel for maybe the scale that it's moving to, the -- some of the resources getting involved and maybe something on the nature of the deals there -- whether they're more of your typical billable consulting deals. Thanks.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Bill, historically, we've had a large focus on the -- obviously the performance improvement and the revenue cycle part of our business, and we have had clinical services that we've been providing for some period of time. When we hired Dr. Andy Ziskind earlier this year, we -- the objective of having him expand the Clinical Services practice was really an attempt to help our clients do the things that I was kind of mentioning a few minutes ago, and that was when we talk about the need to better coordinate care to improve physician integration. Those are the things that are outside the normal range of our traditional performance improvement and revenue cycle businesses. So we've hired several MDs that are physicians to enhance our Physician Integration practice, and I think as we go through and talk about what coordinate care means and how to improve the integration of physicians and how to just improve the overall flow of clinical operations, that is an area that we think is going to have very strong growth and it certainly is going to be central to the hospitals' needs to respond to the market forces that I was referring to a second ago. So we continue to hire in aggressively into that practice. We see demand for our services as being very substantial in that area, and that's why we indicate that, from a growth perspective, that will be the highest-growth part of our practice for the foreseeable future. That says nothing about the fact that we have very high expectations for the normal core part of our Healthcare practice, both of which are doing extremely well. But we think this is the one that's actually going to continue to be a very high growth area for us.

William Sutherland - *Northland Capital Partners - Analyst*

Does it -- is it fair to say it's kind of at a size now where it's going to be another year or two before it's really noticeable, or is it -- I'm trying to get a sense of the scale that you've gotten to.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Yes. I think we're -- as we're building new competencies, these are areas that a lot of -- that -- we're performing services that -- they've always existed in the marketplace but probably not at any kind of major scale because the need wasn't as acute. I think the need now is very substantial. And so we're growing the practices. I think it's fair to say that, in some respects, we're going to be providing services that historically haven't been provided. So that's why it gives us a great opportunity to do it. When we're talking about recruiting into that business -- when we're talking about looking at potential acquisitions -- it's collectively getting our heads around the fact that we're doing things with hospitals that have not been done before and that's what makes it exciting for us and we also think that's why it's such a great growth opportunity for us. So I think you're going to see the growth continue to evolve during the course of this year, and I think you'll begin to certainly see some significant growth next year as well as beyond.

William Sutherland - *Northland Capital Partners - Analyst*

Thanks, Jim.

Operator

Mr. Roth, we have concluded the allotted time for this call. I'd like to turn the conference back over to you.

Jim Roth - *Huron Consulting Group Inc. - Chief Executive Officer and President*

Thank you. There are daily reminders in the press about the changes taking place in our core markets. Our people remain incredibly focused on serving our clients and growing our business. I have the privilege of working with a very talented group of people and I have strong confidence in their ability to achieve our stated objectives. In two weeks, we will mark the tenth anniversary of Huron's inception. We are all very proud of what we have accomplished, and I know that we are very excited about our prospects for the remainder of 2012 and beyond. I look forward to speaking with you again in July when we announce our second-quarter results. Good day.

Operator

That concludes today's conference call. Thank you, everyone, for your participation.
