THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

HURN - Q3 2012 Huron Consulting Group Inc. Earnings Conference Call

EVENT DATE/TIME: OCTOBER 30, 2012 / 9:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jim Roth *Huron Consulting Group - CEO and President*

Mark Hussey *Huron Consulting Group - CFO*

CONFERENCE CALL PARTICIPANTS

Tim McHugh *William Blair & Company - Analyst*

Randall Reece *Avondale Partners - Analyst*

Tobey Sommer *SunTrust Robinson Humphrey - Analyst*

Joseph Foresi *Janney Montgomery - Analyst*

Bill Sutherland *Northland Capital Markets - Analyst*

Paul Ginocchio *Deutsche Bank - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to Huron Consulting Group's webcast to discuss financial results for the third quarter 2012. At this time, all conference call lines are on a listen-only mode. (Operator Instructions) As a reminder, this conference call 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 SEC for disclosure of factors that may impact subjects discussed in this afternoon'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 - CEO and President*

Thank you. Good afternoon and welcome to Huron Consulting Group's third quarter 2012 earnings call. With me today are Mark Hussey, our Executive Vice President and Chief Financial Officer, and Patty Olsen, our Vice President of Human Resources.

We know that the last few days have been quite disruptive for some of our shareholders in the New York and mid Atlantic regions. All of us at Huron are hopeful that life begins to return to normal for those affected, and that the families and loved ones in the region are safe as the storm moves on.

Our third quarter results reflected revenues that were the second highest in the Company's history. During the first two quarters of this year, we expected that revenues would be stronger in the second half of the year with the third quarter being better than the second and the fourth quarter being better than the third. The third quarter results announced today are consistent with our expectations and reflective of a favorable growth environment across all of our segments. I will now provide additional segment by segment insight into our quarterly results.

I'll start with Health and Education Consulting segment. The healthcare practice, which represents approximately two-thirds of the segment, had a strong quarter. As anticipated, our performance-based revenues were much higher in the third quarter coming in at just under $27 million as compared to nearly $14 million in the second quarter. We indicated in prior quarters that high levels of utilization and a low net fee per hour were consistent with our environment that we are building towards the realization of contingent revenue in subsequent quarters. This proved to be true in the third quarter and we expect a similar level of contingent revenue in the fourth quarter, although as we've indicated in the past, some portion of those contingent revenues may be recognized in the first quarter of 2013.

Contingent revenue in the healthcare practice continues to dominate the questions among investors and analysts, so I'd like to take a few minutes to provide some added perspective on the timing and degree of certainty surrounding contingent revenue. There are two key points that I'd like to make but how we view contingent revenue.

The first point is that the realization of revenues from contingent contracts is far more certain than is typically understood. With the vast majority of our engagements with performance-based fees, we complete an opportunity assessment over a two to three month timeframe prior to initiating a project. The assessment provides a basis for establishing the performance criteria that will form the contractual agreement. Once the work begins, we track our progress against performance milestones in order to measure how well we are delivering on the client's expectations. We also internally track our actual performance against our anticipated performance.

Our historical performance in achieving the midpoint in the anticipated client savings and contingent fees is very high. A review of our projects over the past three years showed that we have exceeded on average the anticipated midpoint of client savings expectations across all performance-based engagements. Put another way, our performance-based engagements on average result in savings or revenue increases for our clients greater than the midpoint of client and Huron expectations. These results reflect the value we provide to our clients and also resulting in Huron receiving greater than anticipated contingent revenue.

The second point I want to make run contingent revenues has to do with timing. Our contingent agreements -- arrangements, while providing a great deal of certainty as to recoverability, are less predictable as to when they will be realized. When we sign a contingent agreement, our history suggests there is little uncertainty over the amount to be realized. Instead, the primary uncertainty relates to which quarter the contingent revenue will be recognized. Our clients decide whether they would like a contingency or fixed fee agreement. We recognize that the investment community prefers consistency in earnings, we do as well. However, if requested by our clients, we will readily accept a contingent arrangement with a strong likelihood of increased profitability at the risk of some loss of precision as to when that profitability will be recognized.

Our typical healthcare engagement lasts 12 to 18 months and in some instances up to 24 months. Contingent revenue can begin to be recognized as early as the second quarter of an engagement. Rarely will the recognition of contingent revenue be deferred more than two quarters beyond our anticipated time frame. If a project takes longer than anticipated, it is often the result of one or two sets of circumstances. Either the effort required to meet our performance metrics is more complex than we anticipated or we see additional upside and it makes sense for us to pursue the additional contingent revenue. In either case, deferred recognition of contingent revenue rarely results in reduced margins and often results in greater than anticipated margin. I don't expect this to answer all questions regarding contingent revenue, but I hope it provides some clarity supporting our decisions and results around contingent arrangements.

Getting back to the third quarter results. Our utilization rates in the Healthcare practice dipped slightly in the third quarter due to a practice-wide meeting held in September, early September. While taking nearly 1,000 of our personnel out of the market clearly has an impact on our financial results, the long-term benefit of bringing this group together on an annual basis far outweighs the cost.

Our Higher Education and Life Sciences practice, which represents one-third of the segment, had another very strong quarter. For the second quarter in a row this practice produced record revenues. Like the healthcare industry, the higher education and life sciences markets are going through unprecedented change. In particular, higher education is facing a confluence of rapidly emerging technological disruption of public pressure to reduce costs and improve efficiency.

While our hospital clients are being forced to improve quality while reducing costs, our education clients are facing nearly identical pressure. However, educational institutions often find it more difficult to create institution-wide change. Our core services are primed for this kind of environment, and I expect the favorable conditions in this practice to continue for the foreseeable future.

Academic medical centers at ground zero for the collective set of services we offer within our health and education segment. These institutions are being buffeted by the collective forces that are impacting hospitals and academic medical centers. Our revenues generated by clients with academic medical centers are at an all-time high, and we expect this trend to continue as we go to market with our clinical, academic, and operational improvement services for this complex and challenged segment of the industry.

Let me now turn to our Legal Consulting segment. Revenues for this segment increased year-over-year and were flat as compared to the second quarter. We continue to make significant strides in expanding our client base, one of our primary objectives as we diversify our services to an increasing array of companies, industries, and law firms.

Segment margins were negatively impacted in the third quarter for two reasons. First, we had a slight decrease in demand during the quarter among several of our clients without immediate replacement revenue. Second, following the AdamsGrayson acquisition, we took a restructuring charge due to overlapping Washington DC facilities. As a reminder, in the legal consulting segment, document review space is charged directly to the practice. We don't expect similar occurrences in the fourth quarter.

Finally, as you are aware of this my we announced our Integrated Analytics offering in legal consulting. Integrated analytics is expected to fundamentally change the way market approaches discovery providing significantly improved accuracy at a lower and more predictable cost -- with lower and more predictable cost to the client. While the public announcement of this service just occurred, we are very encouraged by the response of our existing clients, some of whom have successfully tested the integrated analytic services over the past several months. They and we view integrated analytics as a significant improvement in terms of cost and accuracy, and we are comfortable that this new service offering will yield solid performance for this practice beginning later in 2013.

Turning now to the Financial Consulting segment. The third quarter saw an improvement in revenues and margins over recent quarters. While this practice is still operating below our expectations, we believe that the trend for this practice is positive and that we will return to more acceptable metrics in the coming quarters. Mark will talk about the third quarter goodwill impairment charge in Financial Consulting when he goes through the financials.

Finally, we are reducing and narrowing our annual revenue guidance to $615 million to $625 million. This reduction is a result of the issues we have discussed on the call today including an anticipated deferral of some contingent revenue from the Healthcare practice into the first quarter and the timing of certain engagements within legal consulting during the third quarter. We remain confident that the revenue for the fourth quarter will be better than the recently completed third quarter irrespective of whether there is some contingent revenue slippage into the first quarter of 2013. To the extent that some revenue slips into Q1, we are also confident that the deferred revenue will be incremental to a healthy organic growth rate anticipated for 2013.

We will be entering 2013 with larger backlog in the health and education consulting segment than we have ever had before, stemming from strong demand across our performance, clinical, higher education, and life sciences businesses. Now, let me turn it over to Mark for a more detailed discussion of our third quarter results.

Mark Hussey - *Huron Consulting Group - CFO*

Thank you, Jim, and good afternoon, everyone. Let me begin by discussing a few housekeeping items. Consistent with previous quarters, 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. Before I walk you through some key results for the quarter, I want to highlight a couple of items.

As discussed in the earnings release, we recorded a non-cash pretax goodwill impairment charge of $13.1 million or $0.35 per diluted share related to the financial consulting segment. In the third quarter of last year, we recorded a non-cash pretax charge of $22 million or $0.60 per diluted share also related to the financial consulting segment. This charge impacted a variety of reported numbers, but it does not affect our liquidity our debt governments under our credit agreement.

As additional background on the 2012 impairment charge, our Financial Consulting reporting unit reported substantially improved Q3 results compared to Q2, but did not make sufficient progress on longer term initiatives intended to broaden the reporting units, service offerings, and return the unit's financial performance to historical levels. Therefore, in connection with preparation of our Q3 financial statements, we performed a goodwill impairment test resulting in the aforementioned charge.

Also during the third quarter as previously announced we successfully refinanced our current debts. Amendment an extension of our credit facility increased our borrowing capacity by $120 million. This refinancing provides us with the liquidity needed to effectively manage our short-term cash requirements as well as the flexibility and capacity to meet our strategic long-term goals as we look to grow our businesses. It also allowed us to take advantage of a strong pro rata senior bank market and obtain more favorable pricing.

So, with that as background, I will now provide some key financial results for the quarter. Unless otherwise noted, the figures I'll discuss reflect the goodwill impairment charges in both Q3 periods. Revenues for the third quarter 2012 were $161.9 million, a 5.4% increase above the $153.6 million reported in the same quarter of last year and an 11.9% sequential increase from revenues of $144.7 million in Q2 of 2012. EBITDA for the third quarter of 2012 was $26.2 million compared to $10 million a year ago. Adjusted EBITDA increased 25.1% to $41.6 million in Q3 2012 or 25.7% of revenues compared to $33.2 million in Q3 of 2011 or 21.6% of revenues. Adjusted EBITDA excludes a number of items which are listed in our press release, including the goodwill impairment charge in both quarters.

Operating income was $20.6 million or 12.7% of revenues in Q3 2012 compared to $3.7 million or 2.4% of revenues in Q3 2011. Income from continuing operations was $10.4 million or $0.47 per diluted share in the third quarter of 2012 compared to $1.1 million or $0.05 per diluted share in the same period 2011. On an adjusted basis, which excludes the goodwill impairment charges, non-GAAP net income from continuing operations increased almost 29% to $20.8 million or $0.93 per diluted share in the third quarter of 2012 compared to $16.2 million or $0.74 per diluted share in the same period of 2011. For the third quarter of 2012, we recognized income tax expense from continuing operations of $8 million on income from continuing operations of $18.4 million. Our effective income tax rate for the third quarter of 2012 was 43.4%. The effective rate for the third quarter was slightly higher than the statutory rate due primarily to the impact of foreign losses with no tax benefit.

Now, let's look at how each of our business segments did in the quarter. The Health and Education Consulting segment represented 67% of our revenues. The segment posted quarterly revenues of $109 million for the third quarter of this year, 7.4% higher than the $101.5 million reported for the third quarter of 2011. The strong performance this quarter reflected an increase in overall demand for this segment services and a higher number of full-time billable consultants which averaged 1161 during the third quarter of 2012, almost 17% higher than in the same period last year.

This growth rate was partially offset by declines in average billing rate and consultant utilization versus last year's quarter. Utilization was lower due to the Healthcare all practice meeting that Jim referenced in his remarks which had an approximate 2% impact on utilization for the segment. As anticipated and discussed last quarter, performance-based fees rose significantly on a sequential basis totaling $26.9 million for Q3 2012 and also contributed to this quarter's strong performance. Performance-based fees were $28.9 million in Q3 of 2011.

The operating income margin for the Health and Education Consulting segment came in at 42% for Q3 2012 compared to 34.7% for the comparable quarter in 2011. The increase in this segment operating margin was primarily attributable to lower incentive-based compensation accrual partially offset by expenses associated with the healthcare meeting that I mentioned earlier. As Jim pointed out, we are very positive about the segment's outlook based on the size and strength of the hard and the soft backlog.

Our Legal Consulting segment generated nearly 29% of total company revenues during the third quarter of 2012. This segment posted revenues of $46.2 million in the quarter, up 6.1% from $43.5 million in the comparable quarter in 2011. This growth was primarily driven by continued momentum in our advisory business partially offset by a slight decrease in demand for document review and electronic data discovery businesses which were affected by a temporary ramp down in one of our larger client's projects. Also, the AdamsGrayson business acquired in July was a bit slower out of the box than anticipated, but we're pleased with its recent progress.

Segment operating income margin decreased to 24.9% for the third quarter of 2012 from 29.4% in the same period last year. The decrease in the segment's operating margin was partially attributable to a $900,000 restructuring charge for duplicate facilities associated with the AdamsGrayson acquisition. In addition, margins were affected by higher technology expenses and increases in salaries, bonuses and related expenses for both our revenue generating professionals and our support personnel. As Jim pointed out, our recent acquisitions in this segment and our new Integrated Analytics offering make us positive about the Legal Consulting segment's prospects and performance.

During the third quarter 2012, our Financial Consulting segment generated about 4% of total company revenues. This segment posted revenues of $6.7 million in Q3 2012 compared to $8.6 million in the same quarter of last year. Sequentially, financial consulting revenue improved 56% compared with $4.3 million reported in Q2 of 2012. The overall decrease in revenues reflects a lower number of full-time billable consultants and lower consultant utilization partially offset by an increase in average billing rates during the quarter. Segment operating income margin decreased to 26.4% for the third quarter of 2012 from 32.9% in the same period last year primarily due to increased salaries and related expenses for our revenue generating professionals as a percentage of revenues.

As we have previously discussed, the Financial Consulting business has several initiatives under way to improve the segment's financial performance and broaden its offerings. Although the progress of these initiatives has been slower than we expected, they are productive and gaining momentum. We believe these professionals and service offerings remain relevant to the marketplace and we expect performance to continue to improve during the balance of this year and into 2013.

Briefly, now let me make a couple of highlights from the balance sheet and cash flow statement. DSO for the third quarter came in at 73 days, partially reflecting timing of contingent fee billing and collections. Cash flows from operations for the first nine months were $40 million. For the full year, we expect cash flows from operations to be about $75 million. Our full year guidance revenue range, as Jim mentioned in his opening remarks, has been updated based on our current best estimates. The full year 2012 we anticipate revenues before reimbursable expenses in a range of $615 million to $625 million. We anticipate EBITDA in a range of $92.5 million to $95.5 million and adjusted EBITDA in a range of $112.5 million to $115.5 million. We expect 2012 GAAP diluted earnings per share in a range of $1.55 to $1.65 and non-GAAP adjusted diluted earnings per share in a range of $2.25 to $2.35. Weighted average diluted shares for 2012 are estimated to be approximately $22.4 million.

Finally, our guidance on the full-year effective tax rate continues to be approximately 45%. I'd now like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tim McHugh William Blair.

Tim McHugh - *William Blair & Company - Analyst*

I wanted to ask your favorite topic, contingent fees, to start off. I thought you had made a comment during the call that you thought Q4 would be a similar level of contingent fees. Can you just clarify that, and the updated guidance, what kind of fee relative to what you were assuming early in the year? I know there is a range of outcomes here, but what are you expecting in terms of contingent fees getting pushed out into 2013 at this point?

Jim Roth - *Huron Consulting Group - CEO and President*

Tim, this is Jim. Part of our challenge right now is as we sit here at the end of October we don't have real clarity. We are reasonably confident that the contingent revenue for Q4 is going to be roughly where it is for Q3. It could be bigger, it could be larger, it could be smaller. Our sense is it is going to be about where it is. There have been and there continue to be some potential big swings that could accelerate or push out and I tell you, we are reluctant to get in that game. Our current sense right now is that it is going to be roughly in the same range that it was in Q3.

Tim McHugh - *William Blair & Company - Analyst*

Okay. So, what would that have been relative to what you are assuming before? If it's similar to Q3, it's a lot lower than I would have thought for the year and so can you update? I know, as you said, you don't know, but there is obviously an assumption embedded in the guidance here.

Mark Hussey - *Huron Consulting Group - CFO*

Tim, this is Mark. I think the assumption is that contingent fees as a percentage of overall revenues is going to be at a certain range. I think that is how analysts often think of it. I made the comment in earlier remarks as well that we think about total revenue and while there is some movement in contingent fees, it is in fact what's embedded in the guidance and really a portion of what is reflected in our updated guidance range.

Tim McHugh - *William Blair & Company - Analyst*

Okay. I guess -- alright. I will leave it at that. As we look out to -- just to tie that up. The overall demand environment here, is there anything in terms of the projects that you are working on that made you come to that conclusion that those fees will get pushed, that you can bring to a high level? I know obviously individual issues with different projects drove that, but is there anything happening that is causing you to kind of expect a slower ramp in projects or some sort of high-level trend that we can take away from it?

Jim Roth - *Huron Consulting Group - CEO and President*

Tim, this is Jim. Again, we keep going back to the details which I think is important on what drives some of the uncertainty. We have, as you can expect, some fairly large projects some of them, including some in academic medical centers, and what we have found is that the projects in the AMCs and even some of our larger jobs in smaller hospitals, less complex hospitals perhaps, that the series of events that has to take place for us to achieve our expectations for the metrics that we sign up to sometimes get to be a little bit more elongated for a variety of reasons, either because the organization is big and it requires more people to sign off, in some cases there is just more complexity in the overall operating environment. And I think to some extent we have had -- we have tended to have some bigger projects and the complexity of those bigger projects I think where learning teaches us that these things may not go on a timeframe that we originally anticipate.

And so as we try to be clear in the comments, we really don't have a problem with getting the revenue that we are looking for. We are achieving the client results that the clients are looking for. That, in fact, has been incredibly steady. What the challenge is, when is it going to come in and we recognize that that's a very big issue and so we're doing the best that we can to manage it, but there is really only so much we can do to begin to manage that process. So, what we try to do is we just try to stay focused in the market to bring in as much work as we can and to some extent we just cannot always control the organization or operational issues that may cause revenue to be deferred.

When we had a slightly smaller practice it was a little bit easier perhaps to do, but some of the engagements we have right now are taking place in very complex environments, and if you go to an academic medical center, for example, you find that there are, you've got multiple missions taking place under one umbrella, under one organizational umbrella and it's just a very different environment in terms of getting everyone else there to agree and sign off on what's been accomplished and only when that happens, that is really the only time that we get a chance then to go ahead and submit and receive contingent revenues.

So, it's a long way of saying what we tried to mention in the call and that is it really has not all been an issue with us in terms of hitting the client's targets and, therefore, getting the fees that we are looking at, it is a question of when and the larger our clients the more complex they are, to some degree the more uncertainty there is going to be over timing.

Tim McHugh - *William Blair & Company - Analyst*

Okay. And last question would just be the midpoint of the -- or kind of full-year guidance implies at the midpoint, it's called $13 million of sequentially higher revenue in Q4. If it's not contingent fees, what are you expecting in the underlying business that's going to be much better in Q4 than Q3?

Mark Hussey - *Huron Consulting Group - CFO*

Our expectations, Tim, is that there are run rate opportunities in the healthcare practice, as an example, that may not be contingent in nature and that we are looking to ramp up in the various engagements. And then looking for a slightly better quarter as we got a slower start on AdamsGrayson coming into Q4, feeling like the LC practice will have a little bit better results as well. So, that's really underlying those two practices in particular as we look into the mid point implications, if you will, of the guidance.

Jim Roth - *Huron Consulting Group - CEO and President*

Tim, the one other thing I'll point out, this is Jim, that also has an impact on timing is that, as I said, if you went back and looked at our engagements I'd say on average they would probably be increasing in size over the last several years and not surprisingly when a client comes to us and is looking for assistance, whether it be in the clinical transformation area or whether it be in revenue cycle or performance improvement, the end result is some of the work that they're asking us do tends to be fairly invasive, and I think what it takes for the clients, forget about us for a second, what it takes for the clients to get to the point where the can organizationally get their people around what's going to be done within the organization, who's going to participate, what kind of expectations they have, it takes some time and I think we're trying to allow for a little bit of that as well.

In the old days -- there were engagements two years ago where we would get a call on a Friday and start work on a Monday. While that still happens occasionally, it doesn't happen very often. In fact, the larger engagement, in fact the more invasive it needs to be and, again, it's invasive because, as we've said on prior calls, their business model is changing very rapidly. Because of that invasiveness, it really takes some time for them to get their institution to a point in time where they are ready to take on the work that we're going to be doing.

Operator

Randall Reece, Avondale.

Randall Reece - *Avondale Partners - Analyst*

I'm still trying to get clear with everything that is moving on in SG&A. If you had something of a bonus accrual bleed down, I didn't think that SG&A was really significantly different than my expectations, especially given where revenues came in. Just trying to get a better idea what's going on there.

Mark Hussey - *Huron Consulting Group - CFO*

Randy, the SG&A is going to be the indirect expenses, and so most of the bonus expense is going to be in the direct portion, so you're not going to see the SG&A.

Randall Reece - *Avondale Partners - Analyst*

Alright. That explains a lot. In the legal consulting environment, can you characterize with more detail what business didn't come in as expected in terms of type of client or type of activity?

Jim Roth - *Huron Consulting Group - CEO and President*

Randy, this is Jim Roth. It was not limited to one client at all. We had one large engagement that had a slight ramp down from a period of time and then has picked up again, part of what's going to happen, but it was just really a series of -- during the quarter we had a series of clients that just has some temporary lulls that we didn't have immediate replacements for preventing was as simple as that.

Randall Reece - *Avondale Partners - Analyst*

You said temporary lulls, so they entered the fourth quarter at a higher level of activity?

Mark Hussey - *Huron Consulting Group - CFO*

Yes, Randy. This is Mark. If you look at our workstation utilization, we had a little dip in the middle of the quarter and that basically has been recovered and it came, as Jim said, from a number of different clients.

Randall Reece - *Avondale Partners - Analyst*

Alright. Very good. Thank you very much.

Mark Hussey - *Huron Consulting Group - CFO*

I will also add that we had on many of our clients we actually have more than one project going on, and so you may have a dip or actually a drop, a complete stoppage of one particular project but it doesn't mean that our work for the client is dropping off, so that's just another factor. We saw a variety of those things. There was really nothing of any substance from any of them, it was just a series of things that occurred during the quarter that we didn't have immediate replacements for.

Operator

Tobey Sommer with SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

I was hoping you could provide some detail about what the new integrated analytics offering achieves for the Company in the legal consulting area. Many years ago you developed a cost certain approach that was innovative for the industry, and I'm wondering what this new offering achieves in that regard?

Jim Roth - *Huron Consulting Group - CEO and President*

This is Jim, Tobey. First of all, I think the way we've characterized this, it's actually quite a very different approach to what we're -- the way we looked -- this goes far beyond the normal predictive coating which I think a lot of organizations are using today, but it really allows us to have a much more statistically based approach to eliminating, efficiently eliminating the number of documents that could potentially be relevant and I think, as we all know, the real key is to take a large amount of documents and get it down as narrow as possible in a manner that's going to be acceptable to the courts and acceptable within the legal process. And our current integrated analytics enables us to have actually far greater accuracy which results in far more efficiency in terms of eliminating the set of documents or eliminating the number of documents that will not be relevant; therefore, we end up focusing on a much smaller amount.

And, on top of it, this is very important, we do that in a way that really caps the cost for the client and this makes the cost portion of it far more predictable. So, the net result to the client is that they get greater efficiency, in some cases very substantially greater efficiency at a cost that is going to be much more predictable and very likely going to be significantly lower than they historically would have paid.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Where is the limiting factor on driving statistics into the process? Is it the court's acceptance and kind of where judges sit in their level of comfort with statistics and technology, supplanting human intervention?

Jim Roth - *Huron Consulting Group - CEO and President*

Defensibility, there's no question defensibility is an important part of that. There's no question about that, but I think there is other aspects as well. I think if there was -- the way you go through these documents and the way that our approach now, the integrated analytics approaches these things. It really looks at the collective set of documents in a very different way than it has ever happened before, and I think the combination is, and the statistical analytics that go into that whole process are --really make this very unique.

It all has to go through the defensibility structure which we know is going to be important. That's why we work so closely with legal counsel outside legal counsel that actually has a lot of experience in defensibility matters. We work with academics, statisticians, and we've really begun to isolate all of this in the center where we're going to focus exclusively on this and I think -- I've seen it work, I've seen it applied to historical cases that we've worked on where we had -- we looked at -- we took historical cases that went through the much more traditional route and then we applied them the exact set of data through this integrated analytics and it came up with very incredible results not just in terms of efficiency but also in terms of cost. And I think again this is one thing if we're just out here saying this is going to be a great product. We have worked with clients in pilot mode to evaluate this as we've been bringing this to market and I think it's going to be incredibly effective.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. Do you have -- I think you gave a comment about the tax rate for the full year. Could you narrow that down and imply what that would mean for the fourth quarter?

Mark Hussey - *Huron Consulting Group - CFO*

Tobey, year to date I think we're right now sitting around, I don't have the numbers at the top of my head, but I think it's 48. So, we should see some improvement partially because some of the earlier impacts of the foreign losses are taken discretely in earlier quarters, so that should blend down the fourth quarter in terms of the tax rate for the year.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

What was the figure for the full year?

Mark Hussey - *Huron Consulting Group - CFO*

45%.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Okay, so 48% year-to-date going to 45%. Okay. And then just two other things I wanted to get your comment on. What, if any, inclusion or impact of the weather perhaps impinging and curbing utilization here in the fourth quarter with the storm do you have in your guidance, and then do you anticipate the upcoming political election influencing demand in your key higher ed and health segments? Thanks.

Jim Roth - *Huron Consulting Group - CEO and President*

I think in terms of the -- I will take the second part of it first. In terms of the election, we don't see anything happening in the short or even intermediate term that would impact them. We continue to see very strong activity in our markets. So, I will come back to that in a second.

With respect to the storm, I think it's too early to tell. We closed down some of our offices on Monday and Tuesday. We're going to be opening up everywhere except one of our offices tomorrow, so we will be back in to some extent. We have been able to get work done remotely in a number of cases. I suspect there's going to be some deferral, but I'm hoping it's just going to be deferral from one month to the next. At this stage we have no reason to believe that this is going to be anything substantial. I don't think it will be zero, but I don't think it will be anything that will impact at this stage that would impact our guidance.

Operator

(Operator Instructions) Joseph Foresi, Janney Montgomery.

Joseph Foresi - *Janney Montgomery - Analyst*

My first question here, I think you talked about the impact utilization being around 2% of taking people or having a get together in the healthcare practice. Was that built into annual guidance or is that something that you were unnecessarily expecting to do, and maybe you could just talk a little bit about what the quarterly impact is on that?

Mark Hussey - *Huron Consulting Group - CFO*

In terms of revenues, it's been built into what we -- really what we were expecting to see. I think if you look over time, when you see the numbers pop in, we know we're going to have people out in the marketplace, so it certainly does not come as any surprise.

Joseph Foresi - *Janney Montgomery - Analyst*

Okay. And then if you look at the contingent fees, I know you talked about there being potential slippage into the first quarter. Can you give us some idea, and maybe you can't wrap a number around it, but do you have any early ideas on what the first quarter contingent fees would look like on a relative basis? In other words, is there going to be a step down in 1Q versus 4Q? Are we talking about a little bit of a slippage that may be necessarily wouldn't skew that number. I just think it would be helpful to get a little color around what, how we should think about the sequential change.

Mark Hussey - *Huron Consulting Group - CFO*

Joe, we have not prepared our 2013 operating plans, but all of that said, I think it's reasonable to think that Q1 contingent fees are going to be a very strong number without putting any dollars or cents around that at this point. We will update guidance when we release in February, but it would not be surprising to see a good solid quarter out of the gate on contingent.

I would only add to that, that solid number will be reflective of what would be the normal contingent revenue run rate that you would expect to see plus whatever slippage rolls over into Q1 and, again, it's too early to tell. I think we may still be sitting here at the end of December still not certain exactly what's going to hit and what's not going to hit. It's just the way these contingent revenues are done, but I think at this point it is fair to say what will be a fairly strong number.

Joseph Foresi - *Janney Montgomery - Analyst*

Okay. Can you remind me what you think the normal run rate on the contingency fee side is? It's obviously spiked and moved around and back-end loaded, and we saw very strong numbers last year. Maybe you could just give us some color on what you think the normal run rate is.

Mark Hussey - *Huron Consulting Group - CFO*

Well, the way that we look at them over time when we're talking trends, you can't really talk on any individual quarter because if you do, as everyone knows on the call, bounces around quite a bit. The way we think about them is we look in a 12 to 18 month trailing period and look at those as a percentage of revenues. In general, while we have some volatility in any given quarter, they have tended to be inching up a little bit over time and we could certainly go back and give you the numbers in terms of what they have been over the last 12 or 18 months so you can -- because those numbers have certainly been disclosed.

Joseph Foresi - *Janney Montgomery - Analyst*

Sure. We have got those numbers. I just want to get a good color on it. Just two more quick ones for me. On 2013, I know it's too early to give guidance but I think you talked about, and correct me if I'm wrong, a 10% growth rate in the healthcare practice. I believe that includes contingency fees. Is that still the target growth rate and is there any reason to think of that any differently as we look out next year and beyond that?

Mark Hussey - *Huron Consulting Group - CFO*

At this stage, Joe, we're still trying to be relatively conservative. I think we would feel -- we feel at this stage reasonably comfortable with mid to upper single digit growth rates across the Company for 2013. We, as I indicated at the end of my initial comments, in just the health and education consulting segment, we are entering 2013 with very strong backlog, stronger than we have had before and, again, what that tells me is that we have slightly better visibility into the year than we've had before. It's across all aspects of our health and education practices, and that gives us some comfort that we're going to have a decent year but, again, there are so many factors that could still impact it. We'll be working on our budgets and plans over the next couple of months, over the next month actually, and we'll be in a much better position to talk about this when we release fourth quarter. But, suffice it to say, I think we entered this year thinking that the markets were very strong.

I think the reality is the markets have been strong, the work that we wanted to get we've been getting. Some of it, as we have indicated, has taken us a little longer to get than we thought was going to be the case and so that was certainly part of the issue in healthcare. Financial consulting certainly saw -- was much lower than we entered the year thinking it was going to be, and I think those are two of the biggest deltas that we have between our original guidance and where we're at right now. But, as we look at where we are in the market, and I'll even include financial consulting in this, I think things are on an upward trend, and we actually feel very good about where we are positioned right now.

The kind of work we're being asked to do, the number of clients that are asking us to do work and we feel pretty good about it and we, along with I'm sure a lot of you, are hoping we can work with some of the timing issues here and try to find them to be in a little bit more predictable pattern but, as we indicated, when we can't be predictable, we are often still getting to the point where we are recovering the cost, we're recovering the revenue rather, and it's just a question of when and that may be part of what we need to live with for right now. We are very comfortable where we are at in the market, very comfortable with our competitive position, and very comfortable with what we believe is going to be the needs in our core markets places.

Joseph Foresi - *Janney Montgomery - Analyst*

Great. And I think you led just into my last question. On the backlog side, maybe could just give us some color as to how you measure backlog. What you're looking at and how it numerically changed versus last year at this time. I think that might shed some light on sort of your kind of bullish position heading into 2013, if we could get any color on that. Thanks.

Mark Hussey - *Huron Consulting Group - CFO*

I won't give numbers, but I'll tell you how we calculate it and it is essentially our backlog. The way we view backlog right now is a combination of what we call hard backlog which is signed agreements and soft backlog, and soft backlog for us basically means things that are close to being signed but are not quite signed. We have a very good sense that they're going to start. We don't always know when, but we have a very good sense that they're going to start, and so that combination of hard and very strong, soft backlog gives us what we collectively look at backlog going into the year.

And the numbers that we're showing for healthcare and higher education as we enter the end of 2012, those numbers are stronger than they were the same point in 2011. That is what partly gives us our confidence.

Operator

Bill Sutherland, Northland Capital Markets.

Bill Sutherland - *Northland Capital Markets - Analyst*

Thank you. Most of mine have been asked. I would appreciate some color on the turn of events on the financial consulting and how you're kind of assessing the visibility or whether there is -- or whether you can kind of figure a trend line yet? Thanks.

Mark Hussey - *Huron Consulting Group - CFO*

Bill, this is Mark. We feel pretty good. We came obviously off a very weak quarter in Q2 and we had a nice improvement back. We definitely think that as we look at our, again we look at our hard and soft backlog there and even coming into the fourth quarter we have a very large percentage of our fourth quarter under hard backlog and feeling like we've got some nice longer term engagements that have not been present in some of the earlier quarters. So, the team has done a very, very good job of transitioning to address the tougher marketplace and there are some additional initiatives that we've been working on to expand some of the offerings which have started to be productive as well.

So, we think that the practice right now on a run rate basis gets back on track nicely versus where it was this year, and not without a whole lot else needing to happen. The positive thing was we had good relative market facing people for the whole year. We have continued to say all year that that has been the case and they have really adjusted and done a great job of getting the practice results more in line with where they need to be.

Bill Sutherland - *Northland Capital Markets - Analyst*

And so, Mark, what would be the one or two most important focuses, practices if you would, that are kind of creating this momentum?

Mark Hussey - *Huron Consulting Group - CFO*

We've been doing a lot more, Bill, on the operational improvement side where we have perhaps not a specific bankruptcy or turnaround situation, but places where our expertise from just understanding the marketplace and performance improvement across the Company have helped us position additional work in various clients and perhaps a little bit different in terms of some of the channels that we have been getting our work from, not necessarily just strictly along the banks, but also from a little bit more from private equity and the like as well. So, combination of being industrious as well as persistent around the marketplace and finding ways to be relevant for those engagements has given us some good results.

Bill Sutherland - *Northland Capital Markets - Analyst*

Great. I don't have the head count numbers in front of me, but will you be expanding head count? And then in terms of operating margin or the segment margin, is that something that's going to be kind of a baseline and something you can improve on from here?

Mark Hussey - *Huron Consulting Group - CFO*

Yes, historically the segment is at the 30% plus range and we'd like to get it back into that range. We think we have a good plan to do that and not all that many quarters out ahead of us. The marketplace is going to continue to be tough just because of the number of bankruptcies and the level of competition as you see some larger competitors coming down into our middle market areas of expertise. So, I -- but I think that will help drive revenue and that in this particular practice is the most important thing. I think from a hiring standpoint, more than likely it will be a handful but not a significant percentage of growth in that particular practice.

Bill Sutherland - *Northland Capital Markets - Analyst*

Okay. And then finally, overall hiring. In the quarter did you increase the amount of junior hiring, campus hiring in the quarter relative to last year?

Mark Hussey - *Huron Consulting Group - CFO*

It's been -- primarily, again, if you look at our MD count, a lot of our hiring has been highly leveraged this year which has certainly helped us just from blending down our overall rate per hour. I would expect that to continue, but also we are certainly in the marketplace for some managing director talent as well.

Operator

(Operator Instructions) Paul Ginocchio with Deutsche Bank.

Paul Ginocchio - *Deutsche Bank - Analyst*

A couple first for Jim. On legal, any of the third quarter sort of slowdown do you think is that related to the economy whatsoever? Second, did you give a higher education growth rate and how much faster is it growing in healthcare? And then I have a couple follow-ups for Mark. Thanks.

Jim Roth - *Huron Consulting Group - CEO and President*

Paul, I don't think anything in the LC business was impacted by the economy. I think this is just the nuances of the jobs that we are working on to be honest. I think it's largely unimpacted, has been and probably will continue to be by the economy. We just don't see that kind of results on a quarter by quarter basis.

With respect to higher ed, we don't give separate growth rates, although I think that they're really going to be pretty similar. I think they're both going strong and, as I said, the markets are facing almost identical pressures and we just happen to be very well positioned in them so, again, I would expect the collective segment to be in the mid to upper single digits for the coming year.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great. Is there anything legal, I wouldn't expect there is, but is there anything legal contingent on the election?

Jim Roth - *Huron Consulting Group - CEO and President*

No.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great. Then, Mark, the free cash flow guidance it looks it came down maybe a little bit more than the EBITDA guidance. What else is impacting that? And, second, the bill rate in financial consulting has gone up quite a bit in the third quarter relative to the trends in the first half of the year. Is that a good number for the fourth quarter? Thanks.

Mark Hussey - *Huron Consulting Group - CFO*

Probably need to take a look at that one, Paul. I think actually we're optimistic that maybe the 75 is a little bit on the conservative side. As you saw, we had a little bit higher DSO at the end of Q3. We're hoping to bring that down back on a normal basis, so maybe some potential improvement on that site. I think the second part of your question, could you repeat that again? I'm not sure that --

Paul Ginocchio - *Deutsche Bank - Analyst*

Sure. I think you reported 368 for your bill rate and financial consulting was up 13% year on year that versus being down year on year in the first half of 2012. Is that, should we expect it to be up again in the fourth quarter or -- I'm just trying to understand the bill rate for the fourth quarter for financial consulting? Thanks.

Mark Hussey - *Huron Consulting Group - CFO*

I think it's going to be a similar range. I would hope it is actually going to improve a little bit. We've actually got some better mix of engagements and it was helped a little bit in Q3. We had a minor amount of contingent fees, success fees associated with that. We are talking a few hundred thousand, nothing material.

Operator

Tobey Sommer with SunTrust.

Tobey Sommer - *SunTrust Robinson Humphrey - Analyst*

Thank you. My questions have been answered.

Operator

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

Jim Roth - *Huron Consulting Group - CEO and President*

Thank you for spending time with us this afternoon. We look forward to speaking with you again in February when we announce our fourth quarter and year-end results. Good evening.

Operator

Thank you. That concludes today's conference. Everyone have a great day. Thank you for your participation.