

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 67472 / July 19, 2012**

**ACCOUNTING AND AUDITING ENFORCEMENT**  
**Release No. 3394 / July 19, 2012**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-14958**

**In the Matter of**

**HURON CONSULTING  
GROUP INC., GARY L.  
BURGE, CPA, AND  
WAYNE E. LIPSKI, CPA,**

**Respondents.**

**ORDER INSTITUTING CEASE-AND-  
DESIST PROCEEDINGS PURSUANT TO  
SECTION 21C OF THE SECURITIES  
EXCHANGE ACT OF 1934, MAKING  
FINDINGS, AND IMPOSING A CEASE-  
AND-DESIST ORDER AND REMEDIAL  
SANCTIONS**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Huron Consulting Group Inc., Gary L. Burge, and Wayne E. Lipski (collectively “Respondents”).

**II.**

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over themselves and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making

Findings, and Imposing a Cease-and-Desist Order and Remedial Sanctions (“Order”), as set forth below.

### III.

On the basis of this Order and Respondents' Offers, the Commission finds that:

#### SUMMARY

1. Huron Consulting Group Inc. (“Huron” or the “Company”), a provider of financial and operational consulting services, Gary L. Burge (“Burge”), Huron’s former Chief Financial Officer (“CFO”) and Treasurer, and Wayne E. Lipski (“Lipski”), Huron’s former Controller and Chief Accounting Officer (“CAO”), failed to properly record compensation expense for redistributions of sales proceeds by the selling shareholders of four companies that Huron acquired. Due to the improper accounting, Huron’s financial statements for 2006 through 2008 and the first quarter of 2009 were materially misstated. Huron also failed to maintain effective internal controls to ensure the appropriate recording and reporting of those redistributions. Accordingly, Huron violated the reporting, books and records, and internal controls provisions of the Exchange Act, and Burge and Lipski were a cause of Huron’s violations.

2. From May 2005 through July 2008, Huron acquired ten consulting firms, including: Speltz & Weis, LLC (“S&W”); MSGalt & Company, LLC (“Galt”); Wellspring Partners LTD (“WP”); and Callaway Partners, LLC (“Callaway”). The selling shareholders (“SSHs”) of S&W, Galt, WP and Callaway received acquisition sales proceeds from Huron and subsequently redistributed a portion of them to other Huron employees and among themselves (“Redistributions”). Contrary to Generally Accepted Accounting Principles (“GAAP”), Huron did not record compensation expense for these payments. For each of these Redistributions, Huron should have recorded compensation expense because the Redistributions were (1) contingent on the employees’ continued employment with Huron, (2) based on the achievement of personal performance measures, or (3) were not “clearly for a purpose other than compensation.”<sup>1</sup>

3. In January 2008, Huron’s independent accountant (“Auditor”) discussed SEC Staff Accounting Bulletin (“SAB”) Topic 5T, which referenced accounting principles applicable to the Redistributions, with Huron, Burge and Lipski. Thereafter, Huron, Burge and Lipski did not determine the full impact of the accounting principles referenced in SAB Topic 5T on the Company’s financials. More specifically, although Burge and Lipski analyzed certain Redistributions, their analysis was inadequate. Also, although they knew about other Redistributions, and other previously contemplated Redistributions, they did not revisit them. Finally, they did not adequately consider or determine whether there were any additional prior Redistributions or contemplated Redistributions that needed to be analyzed.

4. Because Huron failed to properly account for the Redistributions, Huron filed periodic reports with the Commission that overstated its pre-tax income by 3.70% for 2005, 6.09%

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<sup>1</sup> Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, paragraph 11.

for 2006, 30.45% for 2007, 68.59% for 2008, and 25.29% for the first quarter of 2009. In August 2009, Huron restated its financial statements for fiscal years 2006, 2007 and 2008 and the first quarter of 2009, reducing its net income by approximately \$56 million.<sup>2</sup>

## **RESPONDENTS**

5. **Huron Consulting Group Inc.** is a Delaware corporation with its principal place of business in Chicago, Illinois. It provides financial and operational consulting services to clients in diverse industries, including healthcare, business, and legal. At all relevant times, Huron's common stock was registered with the Commission pursuant to Section 12(b) of the Exchange Act, and traded on the NASDAQ Global Select Market system under the symbol "HURN."

6. **Gary L. Burge**, CPA, age 58, of Wheaton, Illinois, joined Huron in November 2002 as CFO and thereafter also became CAO and Treasurer. He resigned from Huron on December 31, 2009. Burge has been a registered Certified Public Accountant ("CPA") in Illinois since 2010.

7. **Wayne E. Lipski**, CPA, 55, of Naperville, Illinois, joined Huron in October 2003 as Controller, and became its CAO in May 2009. He resigned from Huron on July 31, 2009. Lipski has been a registered CPA in Illinois since 2006.

## **FACTS**

### **Huron's Restatement**

8. On July 31, 2009, Huron announced that it intended to restate its financial statements to properly account for redistributions of acquisition sales proceeds by the SSHs to other Huron employees and among themselves in amounts that were not consistent with their ownership percentages. Huron also announced the departure of its Chief Executive Officer ("CEO") and Lipski, and that Burge had stepped down as CFO. On August 3, 2009, the first trading day after the Company's announcement, Huron stock closed at \$13.69, a 69.13% decrease from the previous trading day's closing price of \$44.35. On August 17, 2009, the Company filed a Form 10-K/A with restated financial statements for fiscal years 2006, 2007 and 2008 and the first quarter of 2009, which reduced Huron's net income for the restated periods by approximately \$56 million.

9. In determining to restate its financial statements, Huron relied on SAB Topic 5T, *Accounting for Expenses or Liabilities Paid by Principal Stockholder(s)*. SAB Topic 5T provides guidance by Commission staff on how to account for the Redistributions, through the principle that expenses incurred by economic interest holders on behalf of an issuer should be recorded as

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<sup>2</sup> Huron's restated 2006 financial statements reflect \$1,143,333 of non-cash compensation expense that should have been recognized in 2005.

expenses by the issuer.<sup>3</sup> While SAB Topic 5T has been updated periodically to reflect changes in the underlying referenced accounting standards, including the issuance of Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share-Based Payment*, in 2004, the underlying accounting principle has remained unchanged. In SAB Topic 5T, the staff references paragraph 11 of SFAS No. 123R, which considers the accounting for share-based payments made to issuer employees by related parties or holders of an economic interest. Specifically, SFAS No. 123R states that “share-based payments awarded to an employee of the reporting entity by a related party or holder of an economic interest in the entity as compensation for services provided to the entity are share-based payment transactions to be accounted for under this Statement unless the transfer is clearly for a purpose other than compensation for services to the reporting entity.” The staff notes in SAB Topic 5T that the problem of separating the benefit to the economic interest holder from the benefit to the issuer, as addressed in SFAS No. 123R, is “not limited to transactions involving stock compensation.”

10. Huron analogized the Redistributions to the transaction involving a primary shareholder as discussed in SAB Topic 5T. The Company concluded that the Redistributions that were subject to continuing employment requirements were considered compensation payments made for the benefit of Huron. Huron concluded that the Redistributions that related to the individual’s performance within Huron subsequent to the acquisition, or that were not “clearly for a purpose other than compensation for services” to Huron, were considered compensation payments made for services provided to Huron. SFAS No. 123R, paragraph 11. As such, Huron should have recognized additional compensation expense for all of these Redistributions.

#### In 2005, Huron, Burge and Lipski Knew that the S&W SSHs Contemplated Sharing Sales Proceeds with Non-SSHs

11. On or about May 9, 2005, Huron acquired S&W. The purchase consideration included cash paid at closing and notes payable paid in annual installments. Among the S&W consultants that joined Huron after the acquisition were the two SSHs and six key managing directors (“S&W Key MDs”).

12. During the S&W acquisition negotiations, Burge, Lipski, and others at Huron learned that the S&W SSHs contemplated sharing their acquisition sales proceeds with non-SSHs. In March 2005, Burge and others at Huron received a draft acquisition term sheet that detailed an S&W “Special Bonus” plan, under which S&W would use sales proceeds to pay bonuses to S&W Key MDs and non-MDs at the time of the acquisition’s closing. In April 2005, Burge and Lipski corresponded amongst themselves and with another Huron employee about a proposed provision in the S&W purchase agreement providing for Huron to make the payments (*i.e.*, for Huron to serve as “paymaster”). At Burge’s request, Lipski also opined on the accounting implications for such payments.

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<sup>3</sup> SAB Topic 5T was originally issued in September 1988 through Staff Accounting Bulletin No. 79. SAB Topic 5T was amended in part by Staff Accounting Bulletin No. 107 to update references made to other accounting literature.

13. One week before the acquisition closed, on May 2, Burge, Lipski, and others at Huron, were forwarded an email from S&W's attorney stating that some of the payments would be "conditioned on [S&W's] performance (tied to the earn-out and sales attribution)," and that all payments would be "conditioned on continued employment with Huron."

14. The executed S&W purchase agreement did not include a provision that Huron would distribute sales proceeds to S&W employees.

15. On the day that the S&W acquisition closed, S&W established a Deferred Bonus Plan under which the S&W Key MDs were entitled to receive a portion of the S&W sales proceeds if they remained Huron employees. Under this Plan, the S&W SSHs gave the S&W Key MDs a portion of the S&W Notes: \$1,016,667 for fiscal year 2006 and \$774,723 for fiscal year 2007. For fiscal year 2006, S&W also gave \$100,000 of its sales proceeds to twelve non-MD employees who joined Huron in connection with the acquisition. Because all of these payments were contingent on employment, Huron should have recognized non-cash compensation expense for them: \$1,116,667 for 2006; and \$774,723 for 2007.

#### In 2007, Huron, Burge and Lipski Knew that the Galt SSHs Paid Some of the Galt Employees' 2006 Bonuses

16. On or about March 31, 2006, Huron acquired Galt. The purchase consideration included cash paid at closing, a holdback to be paid if certain target revenues were met, and the ability for the SSHs to receive annual earn-out payments contingent on Galt meeting certain financial targets ("Earn-Outs").

17. In December 2006, Burge, Lipski, and others at Huron learned that the Huron and Galt SSHs' 2006 bonus plans were at odds. Huron wanted the Galt practice to meet a 55% gross margin target, which allowed for a 2006 Galt employee bonus pool of \$380,000. Galt told Huron that its bonus pool estimate was \$1.544 million.

18. Burge and Lipski were involved in discussions regarding Huron awarding employees with full bonuses while still achieving the Galt gross margin target. Initially, Huron proposed to the Galt SSHs that they reduce a guaranteed bonus that was contractually owed to them. Shortly thereafter, Huron proposed requiring the Galt SSHs to pay a portion of the total bonus amount that the Galt SSHs wanted to pay, instead. In the end, the Galt SSHs paid bonuses to employees employed by Galt at the time of the acquisition, and Huron paid bonuses to employees who were hired by the Galt practice after the acquisition.

19. On January 25, 2007, Huron's Managing Director of Financial Planning & Analysis ("MD of FP&A") sent Burge and Lipski a spreadsheet outlining the final structure. It stated that of the Galt employee bonus pool, the Galt SSHs would pay \$1.119 million and Huron would pay \$199,000. A note next to the line with Huron's amount stated: "Reduce Consultant Bonus Pool for '06 to deliver 55% Gross Margin." The spreadsheet showed that if Huron were to pay the entire proposed Galt bonus amount, then the Galt practice's gross margin would be 45.2%.

20. The Galt SSHs used \$1,184,847 of their personal funds to pay 2006 bonuses to Galt non-SSHs. At the time of the Restatement, Huron concluded that the Galt SSHs' payment was not "clearly for a purpose other than compensation" and therefore, under SAB Topic 5T, it should have recorded this payment as additional non-cash compensation expense in 2006.

In 2007, Huron, Burge and Lipski Generally Knew that the WP SSHs Formed a Trust to Receive and Distribute the WP Earn-Outs

21. On or about January 2, 2007, Huron acquired WP. The purchase consideration included cash paid at closing and the ability for the SSHs to receive Earn-Outs. Huron paid Earn-Outs to WP for fiscal years 2007 and 2008.

22. On April 16, 2007, the WP SSHs entered into the WP Partners Trust Agreement ("WP Trust Agreement"), which provided that a specific percentage of the total WP Earn-Outs for a given year would be distributed to the SSHs based on their ownership interest and that the remainder would be distributed to the SSHs and any other managing directors designated by the trustees (three of the WP SSHs) based on their performance. The WP Trust Agreement provided that "[o]nly Managing Directors employed by [Huron] on the last date of the relevant Calculation Period may receive distributions of Performance Earn-Out Payments."

23. Burge, Lipski, and others at Huron generally knew that WP had formed a trust that would receive and distribute the WP Earn-Outs.

In 2007, Huron and Burge Knew that the Callaway SSHs Contemplated Sharing Earn-Outs with Non-SSHs

24. On or about July 28, 2007, Huron acquired Callaway. The purchase consideration included cash paid at closing and the ability for the SSHs to receive Earn-Outs.

25. During the Callaway acquisition negotiations, Burge learned that the Callaway SSHs contemplated sharing their Earn-Outs with non-SSHs. In April 2007, Callaway's investment banker told Burge that "[Callaway's investment banker has] assumed in other Huron transactions that the ownership of the earnout has roughly mirrored the ownership of the selling shareholders, which would not be the case here." They then discussed whether this might raise accounting issues for Huron. Ultimately, Huron never paid the Callaway SSHs any Earn-Outs. As discussed below, in 2008, Huron and the Callaway SSHs entered into an Amendment to Callaway's Asset Purchase Agreement that relieved Huron of its continuing obligation to pay the Callaway SSHs any Earn-Outs.

In 2007, Huron, Burge and Lipski Knew that the Callaway SSHs Paid Bonuses to Non-SSHs

26. During the Callaway acquisition negotiations, Burge, Lipski, and others at Huron learned from an acquisition due diligence report that the Callaway SSHs had a written plan that awarded acquisition sales proceeds to non-SSHs (“Callaway Awards”).

27. Immediately before the closing of the Callaway acquisition, Callaway entered into agreements entitled Bonus, Termination of Grant and Release Agreements with eleven Callaway non-SSHs and two SSHs (“Callaway Agreements”). These agreements rescinded the Callaway Awards, granted bonuses to the thirteen individuals, and stated that Callaway would use sales proceeds to pay the bonuses. The Callaway Agreements had a clawback provision requiring the recipients to repay a portion of their bonuses if they voluntarily terminated their employment with Huron before two years after the acquisition.

28. With the closing of the acquisition, pursuant to the Callaway Agreements, the Callaway SSHs redistributed \$8,120,000 of their up-front cash payment to non-SSHs. Huron should have recorded non-cash compensation expense for the portion of the redistributed amounts that were subject to a clawback provision: \$1,353,333 for 2007; \$3,248,000 for 2008; and \$812,000 for the first quarter of 2009.

29. Around October 2007, Auditor conducted an audit of Callaway’s financial statements for 2006 and reviewed Callaway’s financial statements for the six-month period ended June 30, 2007. Huron’s Director of External Reporting (“External Reporting Director”) was the coordinator between Auditor and the Callaway accounting department.

30. During the audit and review of Callaway, External Reporting Director told Lipski that Callaway was rescinding the Callaway Awards and was using the acquisition’s initial cash payment to pay bonuses instead. Lipski and External Reporting Director then had a conversation with Auditor and Callaway representatives about this fact. Lipski told Burge about this conversation.

31. Neither Burge nor Lipski asked for, or saw, any agreements underlying the bonuses and were therefore unaware of the clawback provision.

32. Huron and Burge also knew that the Callaway SSHs used sales proceeds to pay bonuses to project managers. Shortly after the acquisition closed, a Callaway SSH sent an email to Burge and others at Huron stating: “FYI, we extended \$300k of special recognition bonuses (coming from our proceeds) to our Delivery folks (PM’s). Half paid this week, half in a month.” Thirty days after the Callaway acquisition closed, the Callaway SSHs distributed \$150,000 of its up-front cash payment to twelve Callaway project managers who became Huron employees. Lipski was unaware of these bonuses. Auditor received a spreadsheet listing these bonuses, including their distribution dates. At the time of the Restatement, Huron concluded that these bonuses were contingent on the non-SSHs’ employment with Huron and therefore, that it should have recorded non-cash compensation expense of \$150,000 for them in 2007.

During Huron's Year-End 2007 Closing Process, Burge and Lipski Discussed the Applicability of SAB Topic 5T with Auditor

33. In early December 2007, Burge, Lipski, and others at Huron learned that the WP and Galt SSHs were planning to share their 2007 Earn-Outs with three non-SSHs who were hired by the acquired companies after the acquisitions closed ("Three Non-SSHs"). They discussed these payments and initially concluded that, based primarily on EITF 95-8, Huron would need to recognize the payments as compensation expense.

34. On December 20, after additional internal discussions between Burge, Lipski, and others, External Reporting Director called Auditor's engagement manager ("Engagement Manager") and asked for accounting guidance on redistributing Earn-Outs. Although she did not initially ask about the specific redistributions to the Three Non-SSHs, within a week the focus shifted to them.

35. On January 4, 2008, Engagement Manager emailed SAB Topic 5T to Lipski and External Reporting Director, and stated that he believed that under it, SSHs would be "holders of an economic interest" in Huron and that the Earn-Out redistributions to the Three Non-SSHs would need to be expensed because "the payment[s] [are] caused by a relationship that is not completely unrelated to Huron and . . . benefits Huron."

36. The next day, Lipski emailed Burge, MD of FP&A, and External Reporting Director, and shared Engagement Manager's guidance. Lipski stated that under SAB Topic 5T, "[w]hen a party with an economic interest in an entity...pays for items on the behalf of the entity where the payment has some sort of any benefit to the entity...those payments...must be expense[d] by the company in their income statement."

37. On January 14, Engagement Manager emailed Lipski and External Reporting Director, providing another overview of SAB Topic 5T and applying it to the Earn-Out redistributions to the Three Non-SSHs. He stated: "[E]xpense accounting 'is required in this and other transactions where a principal stockholder (also defined as holders of an economic interest) pays an expense for the company, unless the stockholder's action is caused by a relationship or obligation completely unrelated to his position as a stockholder or such action clearly does not benefit the company.'"

38. Burge, Lipski, and External Reporting Director later spoke with Engagement Manager and Auditor's engagement partner and concluded that Huron would need to expense the Earn-Out redistributions to the Three Non-SSHs.

39. After Burge, Lipski, CEO, and External Reporting Director discussed having the Company, not the Galt and WP SSHs, make the payments to the Three Non-SSHs, Huron directly paid "Galt Non-SSH 1" and "WP Non-SSH 1," and recorded the payments as compensation



expense. The last of the Three Non-SSHs – “WP Non-SSH 2” - was not immediately due a payment.

#### Burge and Lipski Did Not Adequately Analyze Certain Redistributions They Knew About

40. After Burge and Lipski discussed SAB Topic 5T with Auditor, they did not adequately analyze certain Redistributions. As discussed below, although they learned facts indicating that the Galt SSHs were planning to pay Galt Non-SSH 1 a 2007 bonus, they failed to adequately verify whether the Galt SSHs ultimately made an additional payment to him. They also failed to consider whether Huron properly accounted for tax gross-ups that the Company paid the Galt SSHs. In addition, they concluded that payments to two WP Non-SSHs did not have accounting ramifications without adequately performing the necessary factual analysis. Finally, although in the spring of 2008 they were told that the Callaway SSHs were planning to share Earn-Out settlement proceeds with non-SSHs, they failed to determine whether there was an employment contingency attached to these payments.

#### The Galt SSHs Directly Paid Galt Non-SSH 1 a 2007 Bonus

41. Almost immediately after Huron decided to expense the bonus payment to Galt Non-SSH 1, Lipski emailed a Galt SSH (“Galt SSH 1”), copying Burge, asking for an estimate of Non-SSH 1’s bonus so that Huron could accrue an expense for it. Because Galt SSH 1 did not provide an estimate, Lipski proposed that Huron accrue an estimated bonus amount of \$800,000 based on Non-SSH 1’s past compensation and payments made to similarly situated Galt employees, with the plan of making an adjustment at the same time the “Huron company bonus pool calculation” was finalized. Burge concurred with this approach.

42. After Lipski once again asked for, and did not receive, a bonus estimate, he emailed Galt SSH 1, copying Burge, and told him that Huron accrued \$800,000 for the bonus. Lipski also asked Galt SSH 1 to “agree to let Huron pay the \$800,000 accrued bonus (assuming he gets at least \$800,000) directly to [Galt Non-SSH 1]....”

43. In a February 15, 2008 email, Galt SSH 1 confirmed with CEO that Huron would pay the accrued bonus of \$800,000 to Galt Non-SSH 1. He also detailed an adjustment to the Earn-Out calculation that would eliminate any tax implications resulting from the payment. CEO forwarded this email to Burge, Lipski, and MD of FP&A.

44. By March 22, Lipski learned that the Galt SSHs were going to directly pay Galt Non-SSH 1 an additional 2007 bonus (incremental to the amount accrued by Huron). On March 13, Galt Non-SSH 1 called Huron’s Director of Tax (“Dir. of Tax”) and told her that the Galt SSHs awarded him an additional bonus, and that he expected Huron to gross him up for any taxes associated with it. Dir. of Tax emailed Lipski communicating the substance of this call. She then emailed Galt Non-SSH 1 asking for the date and amount of the bonus payment. Galt Non-SSH 1 responded within minutes that he had not yet received the payment and would send another email

once he did. Galt Non-SSH 1 did not tell Dir. of Tax the actual bonus amount. On March 22, Dir. of Tax forwarded Lipski her email string with Galt Non-SSH 1.

45. Burge and Lipski failed to adequately verify whether the Galt SSHs directly paid Non-SSH 1 an additional 2007 bonus. On March 28, Lipski emailed Galt SSH 1, copying Burge and CEO, and stated: “I need to know/confirm if any additional amounts were paid (or to be paid) or any future commitment (short or long-term) was or will be made to [Galt Non-SSH 1] in regards to the \$6 million (or future) Galt Earn-out payments...[S]hould you have any additional plans/thoughts for potential current or future earn-out distributions for [Galt Non-SSH 1] (or any other non-original Galt owner) it would be appreciated if you communicate those thoughts now.” Galt SSH 1 responded that same day to Lipski in one sentence: “There are no commitments for payments to [Galt Non-SSH 1].” Lipski forwarded the response to Burge and others at Huron; Burge then forwarded the response to others at Huron. Burge and Lipski did not seek any additional information.

46. For Galt Non-SSH 1’s 2007 performance, he received a \$2,562,421 bonus: Huron paid him \$800,000 and the Galt SSHs used their Earn-Outs to pay him an additional \$1,762,421. For fiscal year 2008, Huron paid Galt Non-SSH 1 \$800,000. At the time of the Restatement, Huron concluded that the Galt SSHs payment to Galt Non-SSH 1 for 2007 was not “clearly for a purpose other than compensation” and therefore, under SAB Topic 5T, it should have recorded this payment as additional non-cash compensation expense that year.

#### Huron Paid the Galt SSHs a Gross-Up for Adverse Tax Consequences

47. Huron paid the Galt SSHs a gross-up for the adverse tax consequences resulting from the Company paying Galt Non-SSH 1 a 2007 and 2008 bonus of \$800,000 each year. These payments were not made pursuant to the Galt asset purchase agreement. At the time of the Restatement, Huron concluded that the payments were not “clearly for a purpose other than compensation” and therefore, under SAB Topic 5T, it should have recorded additional compensation expense for them: \$38,190 for 2007 and \$44,082 for 2008.

48. Burge and Lipski were aware of the adjustments. CEO forwarded them the February 15, 2008 email from Galt SSH 1 detailing the tax adjustment. Then, on February 28, MD of FP&A forwarded Lipski an email from another Galt SSH referencing the bonus adjustment and attaching spreadsheets detailing the adjustment.

#### The WP SSHs Shared their Earn-Outs with WP Non-SSH 3 and WP Non-SSH 4

49. On December 26, 2007, a WP SSH responded to a request by CEO and told him that WP planned to share five years of its Earn-Out with WP Non-SSH 3 and WP Non-SSH 4, who were “employees of Wellspring but were not shareholders.” On January 8, 2008, CEO forwarded this email to Burge, who forwarded it to Lipski the same day.

50. Lipski concluded, and Burge concurred, that Huron did not have to recognize compensation expense for these contemplated redistributions because WP Non-SSHs 3 and 4 were “Junior Partners.” Lipski believed that purchase price accounting remained intact if the SSHs shared Earn-Outs with employees on track to becoming partners as long as the number of junior partners was limited (the “Junior Partner Theory”). He recognized that the facts and circumstances of the particular situation governed whether someone was considered a Junior Partner. Burge agreed that whether a person was a Junior Partner depended on the specific facts, such as the person’s status within the firm, how long they had been there, how much revenue they generated, and the duration of their employment.

51. Lipski concluded that WP Non-SSHs 3 and 4 were Junior Partners based on his prior knowledge of their roles, without performing an additional factual analysis or having or requesting any documents to determine why the payments were made. He did not know or ask whether there was a contingency on the Redistributions.

52. In concurring with Lipski’s conclusion, Burge did not confirm that Lipski or External Reporting Director performed the necessary factual analysis.

53. Pursuant to the WP Trust Agreement, WP Non-SSHs 3 and 4 received a portion of the WP Earn-Outs: WP Non-SSH 3 received \$400,000 for fiscal year 2007, and WP Non-SSH 4 received \$1,048,215 for fiscal year 2007 and \$1,161,994 for fiscal year 2008. Since these payments were based on their performance, Huron should have recognized non-cash compensation expense for them: \$1,448,215 for 2007; and \$1,161,994 for 2008.

#### The Callaway SSHs’ Redistribution of Earn-Out Settlement Proceeds to Class B SHs

54. Shortly after the closing of the Callaway acquisition in July 2007, the Callaway SSHs created a Class B membership structure and issued Class B units to fourteen non-SSHs (“Class B SHs”). The written grants stated that the units had no current value and would only gain value if Huron paid Earn-Outs. They further stated that the units were fully vested upon grant, but were subject to repurchase at \$1 per unit if the Class B SH ceased to be a Huron employee.

55. In January 2008, Huron and the Callaway SSHs began negotiating an Amendment to Callaway’s Asset Purchase Agreement to relieve Huron of its obligation to pay Earn-Outs in exchange for a promissory note payable no later than August 31, 2008 (the “Amendment”).

56. On March 21, External Reporting Director, who was reviewing the accounting aspects of the Amendment, emailed a draft Amendment to Engagement Manager, copying Lipski, stating that Huron planned to record the settlement proceeds as additional purchase price. Engagement Manager told External Reporting Director that, to maintain purchase price accounting under EITF 95-8 and SAB Topic 5T, Huron should insert language into the Amendment requiring that Callaway distribute the settlement amount in proportion to the SSHs’ ownership interests at the time of the acquisition. External Reporting Director told Lipski about this guidance.

57. When External Reporting Director told the Callaway SSHs' attorney about the required language, the attorney told her it was unacceptable because the Callaway ownership structure had changed a few days after the acquisition's closing with the creation of the Class B membership. He told her that the Class B SHs had rights to the Callaway Earn-Outs proceeds, and thus, the settlement proceeds.

58. On April 3, External Reporting Director emailed the Callaway SSHs' attorney, copying Burge, Lipski, and others at Huron, with suggested language for the Amendment that addressed Engagement Manager's guidance.

59. On April 4, after the Callaway SSHs' attorney revised the suggested language to include a Class A and Class B distinction, Huron and CP4 Warbird Holdings (i.e. the Callaway SSHs) entered into the Amendment. The Amendment specified that the settlement proceeds would only go to Class A and Class B SHs.

60. Huron and Auditor concluded that the portion of the settlement proceeds that would be paid to the Class B SHs would properly be accounted for as additional purchase price under the Junior Partner Theory. Huron and Auditor were not aware of the employment contingency relating to the Class B units. Neither Burge nor Lipski asked whether there was one, or asked for, or saw, the underlying reorganization documents that would have exposed the employment contingencies. Although External Reporting Director asked the Callaway SSHs' attorney for the reorganization documents, she did not receive them.

61. On August 15, pursuant to the Amendment, Huron paid \$23,512,158 to CP4 Warbird Holdings. On August 22, CP4 Warbird Holdings distributed a portion of the proceeds to Class B SHs. Because the payments had an employment contingency, Huron should have recognized additional non-cash compensation expense for them: \$692,130 for 2007; and \$8,305,590 for 2008.

#### Burge and Lipski Did Not Adequately Analyze Other Redistributions and Redistribution Plans

62. Although Burge and Lipski knew that the Galt SSHs previously paid some of the Galt employees' 2006 bonuses, that the Callaway SSHs had previously redistributed initial cash sales proceeds to non-SSHs, and that the S&W SSHs contemplated redistributing initial sales proceeds, they did not revisit these Redistributions or consider whether SAB Topic 5T applied to them.

63. Burge and Lipski also did not adequately consider or determine whether there were any additional prior Redistributions or contemplated Redistributions. Therefore, they were unaware of, and Huron did not record compensation expense for, several other Redistributions, discussed below – Galt's payments under its Employee Award Program, Galt's 2006 bonus payment to Galt Non-SSH 1, WP's payments to WP Non-SSHs 5 and 6, and the redistributions of sales proceeds among the Galt and WP SSHs.

### Galt's Employee Award Program

64. Prior to the Galt acquisition, Galt granted to its employees share units representing a small percentage interest in the firm. The units entitled the employees to a proportional share of proceeds received by Galt from a sale, merger or other liquidity event. To carry out the grants, on March 31, 2006, Galt created an Employee Award Plan "to provide incentive compensation to certain employees . . . who become and remain employed within the Galt group by Huron." Under the plan, the employees' awards vested in 25% increments over a 4-year period (May 2007, 2008, 2009 and 2010), provided the employees remained employed at Huron.

65. Although structured differently, Galt also included another employee, Galt Non-SSH 2, in the award program. Instead of providing a vesting schedule, Galt Non-SSH 2 received a lump award in 2006, but then signed a promissory note promising to repay the same amount as a loan. The note provided that 25% of the loan would be forgiven annually over a 4-year period as long as Galt Non-SSH 2 and at least two of the Galt SSHs remained at Huron.

66. Since the payments had an employment contingency, Huron should have recognized non-cash compensation expense for them: \$144,712 for 2006; \$399,553 for 2007; \$325,522 for 2008; and \$78,123 for the first quarter of 2009.

### The Galt SSHs' 2006 Bonus to Galt Non-SSH 1

67. In addition to the Galt SSHs payment of 2006 bonuses to employees employed by Galt at the time of the acquisition, the Galt SSHs paid a 2006 bonus of \$155,290 to Galt Non-SSH 1, who was hired after the acquisition. At the time of the Restatement, Huron concluded that the bonus was not "clearly for a purpose other than compensation" and therefore, under SAB Topic 5T, it should have recorded this payment as additional non-cash compensation expense in 2006.<sup>4</sup>

### The WP SSHs' Redistributions in 2007 and 2008 to WP Non-SSH 5 and WP Non-SSH 6

68. In 2007 and 2008, WP shared portions of its Earn-Out with WP Non-SSH 5 and WP Non-SSH 6. Since WP Non-SSH 5 received \$250,000 for both 2007 and 2008 based on her performance as a Huron employee, these payments should have been recognized as non-cash compensation expense. WP Non-SSH 6 received \$500,000 of the 2008 Earn-Out for administering the WP trust. At the time of the Restatement, Huron concluded that this payment was not "clearly for a purpose other than compensation" and therefore, under SAB Topic 5T, it should have recognized non-cash compensation expense for it.

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<sup>4</sup> As part of its restatement, Huron also accrued an additional \$3.1 million of compensation expense for a bonus that the Galt SSHs may pay Galt Non-SSH 1 for his 2008 performance. Whether the Galt SSHs are obligated to pay the bonus is the subject of pending litigation.

### Redistributions of Earn-Outs Among SSHs

69. For 2006, 2007 and 2008, the Galt SSHs redistributed Earn-Outs among themselves. Because the redistributions were based upon the SSHs' performance and individual contribution to the Galt practice, Huron should have recognized additional non-cash compensation expense for the amounts subject to redistribution: \$85,012 for 2006; \$407,117 for 2007; \$579,898 for 2008; and \$237,600 for the first quarter of 2009.

70. For 2007 and 2008, the WP SSHs redistributed Earn-Outs among themselves. Because the redistributions were based on performance, Huron should have recognized additional non-cash compensation expense for the amounts subject to redistribution: \$10,344,897 for 2007; \$13,054,731 for 2008; and \$2,634,016 for the first quarter of 2009.

### Huron's Internal Controls Weaknesses

71. Huron's deficient internal controls contributed to the restatement of its financial statements. As Huron disclosed in its amended Form 10-K for 2008, it did not "maintain effective controls to ensure the appropriate recording and reporting" of certain acquisition sales proceeds. Huron stated that its controls were "not designed to ensure that the redistribution of certain [acquisition sales proceeds] among the selling shareholders and to certain of our employees was correctly recorded in accordance with GAAP, including guidance promulgated by the SEC."

72. After February 2008, Huron did not implement sufficient internal controls to monitor whether the SSHs were sharing Earn-Out proceeds with non-SSHs. Although Huron discussed the issue with SSHs who received Earn-Outs for 2007, no formal process was established for educating SSHs about the accounting implications resulting from sharing Earn-Outs or for obtaining information from SSHs about the distribution of Earn-Outs. Although Huron included language limiting redistributions in the purchase agreements for the two acquisitions that occurred between February 2008 and the restatement, it did not seek to negotiate amendments to the purchase agreements of prior acquisitions.

73. Huron did not take any steps to determine or prevent the sharing of sales proceeds other than Earn-Outs.

74. Burge, as Huron's CFO, and Lipski, as Huron's Controller, were two of the persons responsible for ensuring Huron's books, records and accounts accurately reflected its compensation expense, and for devising and maintaining Huron's internal controls.

### Impact of the Redistributions on Huron's Financial Statements

75. As a result of the conduct described above, Huron's financial statements in its annual report on Form 10-K for 2006 through 2008, and in its quarterly report on Form 10-Q for the first quarter of 2009, were materially misstated. On August 17, 2009, Huron filed a Form 10-K/A with restated financial statements.

76. The following table summarizes the additional compensation expense for the Redistributions that were the subject of Huron's restatement, as they impacted direct costs (the income statement line item where compensation expense is recorded) and pre-tax income:

	2006 <sup>5</sup>	2007	2008	1Q 2009
<b>Direct Costs</b>				
As Reported	\$ 163,569,000	\$ 293,387,000	\$ 360,404,000	\$ 99,131,000
Additional Compensation Expense	\$ 3,829,861	\$ 17,620,579	\$ 30,569,817	\$ 3,761,739
As Adjusted	\$ 167,398,861	\$ 311,007,579	\$ 390,973,817	\$ 102,892,739
Percentage Understatement	2.29%	5.67%	7.82%	3.66%
<b>Pre-Tax Income</b>				
As Reported	\$ 46,822,000	\$ 75,497,000	\$ 75,140,000	\$ 18,638,000
Additional Compensation Expense	\$ (3,829,861)	\$ (17,620,579)	\$ (30,569,817)	\$ (3,761,739)
As Adjusted	\$ 42,992,139	\$ 57,876,421	\$ 44,570,183	\$ 14,876,261
Percentage Overstatement	8.91%	30.45%	68.59%	25.29%

#### Burge's and Lipski's Incentive-Based Compensation

77. For his work in 2006, Burge received incentive-based compensation including a cash bonus, a portion of which was based on Huron's performance. On July 7, 2009, pursuant to a 10b5-1 plan, Burge sold shares of Huron stock.

78. For his work in 2006, Lipski received incentive-based compensation including a cash bonus, a portion of which was based on Huron's performance.

### VIOLATIONS

79. Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder require that every issuer of a security registered pursuant to Section 12 of the Exchange Act file with the Commission information, documents, and annual and quarterly reports as the Commission may require, and mandate that periodic reports contain such further material information as may be necessary to make the required statements not misleading.

80. Section 13(b)(2)(A) of the Exchange Act and Rule 13b2-1 thereunder require reporting companies to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect their transactions and dispositions of their assets, and prohibit any

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<sup>5</sup> Huron's restated 2006 financial statements reflect \$1,143,333 of non-cash compensation expense that should have been recognized in 2005.

person from, directly or indirectly, falsifying or causing to be falsified, any book, record or account subject to Section 13(b)(2)(A) of the Exchange Act.

81. Section 13(b)(2)(B) of the Exchange Act requires all reporting companies to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP.

82. As a result of the conduct described above, Huron violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder because it failed to record compensation expense for the Redistributions, and thus filed inaccurate periodic reports with the Commission that materially understated direct costs and overstated pre-tax income.

83. As a result of the conduct described above, Huron violated Section 13(b)(2)(A) of the Exchange Act because it did not keep books, records or accounts that accurately reflected its compensation expense relating to certain redistributions of acquired companies' sales proceeds to non-SSHs and among the SSHs.

84. As a result of the conduct described above, Huron violated Section 13(b)(2)(B) of the Exchange Act because it failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that Redistributions were recorded as necessary to permit the preparation of financial statements in conformity with GAAP.

85. As a result of the conduct described above, Burge and Lipski violated Rule 13b2-1 under the Exchange Act and were a cause of Huron's violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder.

#### **HURON'S REMEDIAL EFFORTS**

86. In determining to accept Huron's Offer, the Commission considered remedial acts promptly undertaken by Huron and cooperation afforded by Huron to the Commission staff. Among other things, Huron self-investigated and self-reported the accounting errors, selected new management and implemented various additional controls designed to prevent similar errors going forward.

#### **IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offers.



Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 21C of the Exchange Act, Huron cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder.

B. Pursuant to Section 21C of the Exchange Act, Burge and Lipski cease and desist from committing or causing any violations and any future violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, and 13b2-1 thereunder.

C. Respondent Huron shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$1,000,000.00 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment must be made in one of the following ways: (A) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request; (B) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or (C) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to Enterprise Services Center, Accounts Receivable Branch, HQ Bldg., Room 181, AMZ-341, 6500 South MacArthur Boulevard, Oklahoma City, OK 73169. Payments by check or money order must be accompanied by a cover letter identifying Huron Consulting Group Inc. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Paul A. Montoya, Assistant Regional Director, U.S. Securities and Exchange Commission, Chicago Regional Office, 175 West Jackson Boulevard, Suite 900, Chicago, Illinois 60604.

D. Respondent Burge shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$50,000.00, disgorgement of \$147,763.12 and prejudgment interest of \$30,338.46 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to Rule 600 of the Commission's Rules of Practice, 17 C.F.R. § 201.600, and 31 U.S.C. 3717. Payment must be made in one of the following ways: (A) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request; (B) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or (C) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to Enterprise Services Center, Accounts Receivable Branch, HQ Bldg., Room 181, AMZ-341, 6500 South MacArthur Boulevard, Oklahoma City, OK 73169; and (D) submitted under cover letter that identifies Gary L. Burge as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Paul A. Montoya, Assistant Regional Director, U.S. Securities and Exchange Commission, Chicago Regional Office, 175 West Jackson Boulevard, Suite 900, Chicago, Illinois 60604.

E. Respondent Lipski shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$50,000.00 and disgorgement of \$12,750.00 and prejudgment interest of \$3,584.94 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to Rule 600 of the Commission's Rules of Practice, 17 C.F.R. § 201.600, and 31 U.S.C. 3717. Payment must be made in one of the following ways: (A) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request; (B) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or (C) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to Enterprise Services Center, Accounts Receivable Branch, HQ Bldg., Room 181, AMZ-341, 6500 South MacArthur Boulevard, Oklahoma City, OK 73169; and (D) submitted under cover letter that identifies Wayne E. Lipski as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Paul A. Montoya, Assistant Regional Director, U.S. Securities and Exchange Commission, Chicago Regional Office, 175 West Jackson Boulevard, Suite 900, Chicago, Illinois 60604.

F. Such disgorgement, interest and civil money penalties may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, and Section 929B of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Regardless of whether any such distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Elizabeth M. Murphy  
Secretary