

NAVIGANT CONSULTING INC
Form 10-Q
July 27, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

Commission File No. 1-12173

Navigant Consulting, Inc.

(Exact name of Registrant as specified in its charter)

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Delaware **36-4094854**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606
(Address of principal executive offices, including zip code)
(312) 573-5600
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of July 26, 2012, 51,595,695 shares of the registrant's common stock, par value \$.001 per share, were outstanding.

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NAVIGANT CONSULTING, INC.

AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2012

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Forward-Looking Statements	

Statements included in this report which are not historical in nature are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may generally be identified by words such as anticipate, believe, intend, estimate, expect, outlook and similar expressions. We caution readers that there may be events in the future that we are not able to accurately predict or control and the information contained in the forward-looking statements is inherently uncertain and subject to a number of risks that could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the factors described in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 and Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations in this report. We cannot guarantee any future results, levels of activity, performance or achievement, and we undertake no obligation to update any of the forward-looking statements contained in this report.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****NAVIGANT CONSULTING, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(in thousands)

	June 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$	\$ 2,969
Accounts receivable, net	205,213	179,041
Prepaid expenses and other current assets	30,538	22,766
Deferred income tax assets	13,008	16,229
Total current assets	248,759	221,005
Non-current assets:		
Property and equipment, net	42,472	41,138
Intangible assets, net	13,490	16,825
Goodwill	570,872	570,280
Other assets	25,513	25,953
Total assets	\$ 901,106	\$ 875,201
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 16,719	\$ 16,261
Accrued liabilities	10,555	8,432
Accrued compensation-related costs	57,889	95,451
Income tax payable		3,558
Other current liabilities	34,130	32,622
Total current liabilities	119,293	156,324
Non-current liabilities:		
Deferred income tax liabilities	62,633	52,964
Other non-current liabilities	17,116	20,445
Bank debt non-current	167,656	131,790
Total non-current liabilities	247,405	205,199
Total liabilities	366,698	361,523
Stockholders equity:		
Common stock	62	61
Additional paid-in capital	575,895	567,627
Treasury stock	(207,112)	(197,602)
Retained earnings	177,571	156,373

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Accumulated other comprehensive loss	(12,008)	(12,781)
Total stockholders' equity	534,408	513,678
Total liabilities and stockholders' equity	\$ 901,106	\$ 875,201

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**NAVIGANT CONSULTING, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share data)**

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenues before reimbursements	\$ 181,529	\$ 173,293	\$ 367,909	\$ 342,897
Reimbursements	23,071	21,115	43,312	40,310
Total revenues	204,600	194,408	411,221	383,207
Cost of services before reimbursable expenses	122,243	116,822	246,203	231,637
Reimbursable expenses	23,071	21,115	43,312	40,310
Total costs of services	145,314	137,937	289,515	271,947
General and administrative expenses	35,848	31,143	71,405	63,552
Depreciation expense	3,740	3,206	7,256	6,583
Amortization expense	1,650	2,163	3,375	4,464
Other operating costs:				
Contingent acquisition liability adjustment	620		620	
Operating income	17,428	19,959	39,050	36,661
Interest expense	1,426	1,911	2,889	3,751
Interest income	(181)	(429)	(419)	(796)
Other expense (income), net	(144)	72	(39)	36
Income before income tax expense	16,327	18,405	36,619	33,670
Income tax expense	6,771	7,645	15,421	14,132
Net income	\$ 9,556	\$ 10,760	\$ 21,198	\$ 19,538
Basic net income per share	\$ 0.19	\$ 0.21	\$ 0.42	\$ 0.39
Shares used in computing net income per basic share	51,112	50,820	51,072	50,498
Diluted net income per share	\$ 0.18	\$ 0.21	\$ 0.41	\$ 0.38
Shares used in computing net income per diluted share	51,685	51,270	51,741	51,153
Other comprehensive income, net of tax				
Net income	\$ 9,556	\$ 10,760	\$ 21,198	\$ 19,538
Unrealized (loss) gain, foreign currency translation	(2,560)	(2)	712	3,591
Unrealized net (loss) gain on interest rate derivatives, net of income taxes	(12)	80	61	212
Comprehensive income	\$ 6,984	\$ 10,838	\$ 21,971	\$ 23,341

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**NAVIGANT CONSULTING, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

	For the six months ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 21,198	\$ 19,538
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	7,256	6,583
Amortization expense	3,375	4,464
Share-based compensation expense	4,939	4,133
Accretion of interest expense	274	529
Deferred income taxes	11,484	11,313
Allowance for uncollectible accounts receivable	3,053	3,028
Contingent acquisition liability adjustment	620	
Changes in assets and liabilities (net of acquisitions):		
Accounts receivable	(29,134)	(13,962)
Prepaid expenses and other assets	(5,196)	(4,745)
Accounts payable	449	889
Accrued liabilities	2,121	(217)
Accrued compensation-related costs	(37,544)	(11,751)
Income taxes payable	(2,852)	(2,266)
Other liabilities	3,292	(3,577)
Net cash (used in) provided by operating activities	(16,665)	13,959
Cash flows from investing activities:		
Purchases of property and equipment	(10,979)	(3,401)
Acquisitions of businesses, net of cash acquired		(1,046)
Payments of acquisition liabilities	(1,106)	(10,217)
Other, net	(1,211)	(225)
Net cash used in investing activities	(13,296)	(14,889)
Cash flows from financing activities:		
Issuances of common stock	2,127	1,050
Repurchase of common stock	(7,260)	
Payments of contingent acquisition liabilities	(2,801)	
Payment upon termination of credit agreement		(250,613)
Proceeds from new credit agreement		250,613
Net borrowings from banks	36,000	6,432
Payments of term loan		(4,599)
Payments of debt issuance costs		(2,814)
Other, net	(1,039)	(839)
Net cash provided by (used in) financing activities	27,027	(770)
Effect of exchange rate changes on cash and cash equivalents	(35)	103
Net decrease in cash and cash equivalents	(2,969)	(1,597)
Cash and cash equivalents at beginning of the period	2,969	1,981

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Cash and cash equivalents at end of the period	\$	0	\$	384
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See accompanying notes to the unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Navigant Consulting, Inc. (we , us , or our) is an independent specialty consulting firm that combines deep industry knowledge with technical expertise to enable companies to create and protect value in the face of complex and critical business risks and opportunities. Our professional service offerings include dispute, investigative, economic, operational, risk management and financial and regulatory advisory solutions. We provide our services to companies, legal counsel and governmental agencies facing the challenges of uncertainty, risk, distress and significant change. We provide services to and focus on industries undergoing substantial regulatory or structural change and on the issues driving these transformations. Our business is organized in four reporting segments Disputes, Investigations & Economics; Financial, Risk & Compliance Advisory; Healthcare; and Energy; which were realigned in the second quarter of 2012. See Note 3 Segment Information.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting and do not include all of the information and footnote disclosures required by accounting principles generally accepted in the United States of America (GAAP). The information furnished herein includes all adjustments, consisting of normal and recurring adjustments except where indicated, which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods presented.

The results of operations for the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2012.

These financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2011 included in our Annual Report on Form 10-K filed with the SEC on February 17, 2012.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and the related notes. Actual results could differ from those estimates and may affect future results of operations and cash flows. We have evaluated events and transactions occurring after the balance sheet date and prior to the date of this filing. We believe there are no such events or transactions that require disclosure for this filing.

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance which requires public entities to increase the prominence of other comprehensive income in financial statements. Under FASB Topic 220 Presentation of Comprehensive Income, an entity will have the option to present the components of net income and comprehensive income in either one continuous or two financial statements. This update eliminates the option to present other comprehensive income in the statement of changes in equity. This update is effective for fiscal years and interim periods beginning after December 15, 2011. We adopted this guidance effective January 1, 2012 and elected to present the components of net income and comprehensive income in one continuous financial statement.

2. ACQUISITIONS

2011 Acquisitions

On July 15, 2011, we acquired the assets of Ignited Solutions, LLC to expand our technology advisory solutions services. Ignited was a discovery services consulting group specializing in electronic discovery data collection, data processing and data hosting. This acquisition included 27 professionals and has been integrated into our Disputes, Investigations & Economics segment. We paid \$6.3 million in cash at closing, and Ignited can earn up to \$3.0 million of additional payments based on the business achieving certain performance targets over the 30 months after closing. We estimated the fair value of the contingent consideration on the date of purchase to be \$2.6 million. The liability was recorded as other current and non-current liabilities. During the six months ended June 30, 2012, we settled \$1.0 million of the contingent consideration and recorded \$0.4 million of other operating costs reflecting a fair value adjustment of the contingent consideration. At June 30, 2012 the deferred contingent acquisition liability balance was \$2.0 million (See Note 8 Supplemental Consolidated Balance Sheet Information). As part of the purchase price allocation, we recorded \$1.2 million in accounts receivable, \$0.5 million in property and equipment, \$1.5 million in identifiable intangible assets and \$5.8 million in goodwill. The purchase price paid in cash at closing was funded with borrowings under our credit facility.

Also, during 2011, we acquired two small businesses, one in May 2011 and one in October 2011, for an aggregate purchase price of \$4.6 million, of which \$2.9 million was paid in cash at closing. One of the acquired businesses was integrated into our Disputes, Investigations &

Economics segment and the other was integrated into our Healthcare segment.

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Pro Forma Information

The following supplemental unaudited pro forma financial information was prepared as if the 2011 acquisitions noted above had occurred as of the beginning of the periods presented. The following table was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future (amounts shown in thousands, except per share data).

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Total revenues	\$ 204,600	\$ 197,417	\$ 411,221	\$ 389,773
Net income	\$ 9,556	\$ 11,105	\$ 21,198	\$ 20,319
Basic net income per share	\$ 0.19	\$ 0.22	\$ 0.42	\$ 0.40
Diluted net income per share	\$ 0.18	\$ 0.22	\$ 0.41	\$ 0.40

3. SEGMENT INFORMATION

During the three months ended March 31, 2012, Julie M. Howard was named our Chief Executive Officer (CEO). As CEO, Ms. Howard fills the role of chief operating decision maker (CODM). Under her direction, a strategic realignment of the firm’s practices occurred during the second quarter of 2012, establishing four new operating and reportable segments that each report to a newly created Executive Vice President position. Our performance will be assessed and resources will be allocated by the CODM based on the following four reportable segments:

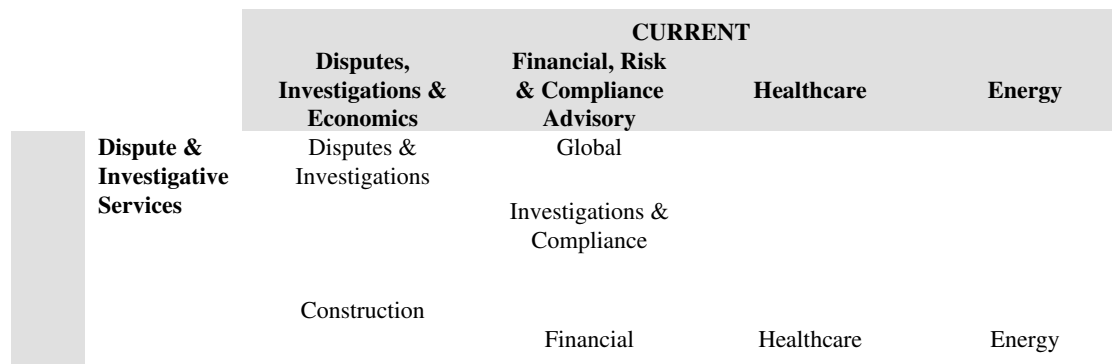
Disputes, Investigations & Economics

Financial, Risk & Compliance Advisory

Healthcare

Energy

The changes combine practices that serve comparable client types and address similar business issues and industry dynamics. The new segment reporting structure provides shareholders and other users of our financial statements with more useful information about several of our key growth businesses, particularly Energy and Healthcare. Finally, the segment realignment represents a shift in overall management of the practices to a global management model, positioning practice leaders to be accountable for the operations and performance of their teams across borders while leveraging local leadership to drive effectiveness.



Business Consulting Services	Claims management	Services		
		Valuation & Financial Risk Management		
	Economic Consulting	Economics	Restructuring	
		International Consulting	Disputes & Investigations	Financial Services
	Construction			
	Public Services			

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The **Disputes, Investigations & Economics** segment provides accounting, financial and economic analysis, as well as discovery support, data management and analytics, on a wide range of legal and business issues including disputes, investigations and regulatory matters. The clients of this segment are principally companies, along with their in-house counsel and law firms, as well as accounting firms, corporate boards and government agencies.

The **Financial, Risk & Compliance Advisory** segment provides strategic, operational, valuation, risk management, investigative and compliance consulting to clients in the highly regulated financial services industry, including major financial and insurance institutions. This segment also provides anti-corruption and restructuring consulting to clients in a broad variety of industries.

The **Healthcare** segment provides strategic, operational, management and financial advisory services to health systems, physician practice groups, payers and life sciences companies.

The **Energy** segment provides existing and prospective owners of energy supply and delivery assets with the ability to evaluate, plan, develop, and enhance their entities in concert with evolving market and regulatory structures. Clients include utilities, independent power producers, financial entities, law firms, regulators, and energy equipment providers.

The following information includes segment revenues before reimbursements, segment total revenues and segment operating profit. Certain unallocated expense amounts related to specific reporting segments have been excluded from segment operating profit to be consistent with the information used by management to evaluate segment performance. Segment operating profit represents total revenues less costs of services excluding long-term compensation expense attributable to consultants. Long-term compensation expense attributable to consultants includes share-based compensation expense and compensation expense attributed to retention incentives (see Note 7 Share-based Compensation Expense and Note 8 Supplemental Consolidated Balance Sheet Information).

The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses. Prior period segment data has been recast to be consistent with the current presentation.

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Information on the segment operations has been summarized as follows (shown in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Revenues before reimbursements:				
Disputes, Investigations & Economics	\$ 81,350	\$ 86,140	\$ 172,569	\$ 170,937
Financial, Risk & Compliance Advisory	42,800	33,134	80,030	63,969
Healthcare	36,022	32,041	72,564	65,597
Energy	21,357	21,978	42,746	42,394
Total revenues before reimbursements	\$ 181,529	\$ 173,293	\$ 367,909	\$ 342,897
Total Revenues:				
Disputes, Investigations & Economics	\$ 86,894	\$ 95,472	\$ 183,983	\$ 186,945
Financial, Risk & Compliance Advisory	52,847	37,408	96,675	73,565
Healthcare	40,839	36,102	81,765	73,270
Energy	24,020	25,426	48,798	49,427
Total revenues	\$ 204,600	\$ 194,408	\$ 411,221	\$ 383,207
Segment operating profit:				
Disputes, Investigations & Economics	\$ 27,995	\$ 31,191	\$ 62,163	\$ 60,499
Financial, Risk & Compliance Advisory	15,402	11,136	29,157	21,378
Healthcare	11,463	9,659	22,933	20,373
Energy	7,475	8,324	14,729	16,058
Total segment operating profit	62,335	60,310	128,982	118,308
Segment reconciliation to income before income tax expense:				
Unallocated:				
General and administrative expenses	35,848	31,143	71,405	63,552
Depreciation expense	3,740	3,206	7,256	6,583
Amortization expense	1,650	2,163	3,375	4,464
Other operating costs:				
Contingent acquisition liability adjustment	620		620	
Long-term compensation expense related to consultants (including share-based compensation)	3,049	3,839	7,276	7,048
Operating income	17,428	19,959	39,050	36,661
Interest and other expense, net	1,101	1,554	2,431	2,991
Income before income tax expense	\$ 16,327	\$ 18,405	\$ 36,619	\$ 33,670

Total assets allocated by segment include accounts receivable (net), certain retention related prepaid assets, intangible assets and goodwill. The remaining assets are unallocated. Allocated assets by segment were as follows (shown in thousands):

	June 30, 2012	December 31, 2011
Disputes, Investigations & Economics	\$ 446,838	\$ 437,431
Financial, Risk & Compliance Advisory	108,821	92,337
Healthcare	154,707	159,450

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Energy	96,074	96,639
Unallocated assets	94,666	89,344
Total assets	\$ 901,106	\$ 875,201

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Goodwill and other intangible assets consisted of (shown in thousands):

	June 30, 2012	December 31, 2011
Goodwill	\$ 576,297	\$ 575,705
Less accumulated amortization	(5,425)	(5,425)
Goodwill, net	570,872	570,280
Intangible assets:		
Customer lists and relationships	72,905	72,679
Non-compete agreements	21,026	21,002
Other	23,893	23,901
Intangible assets, at cost	117,824	117,582
Less accumulated amortization	(104,334)	(100,757)
Intangible assets, net	13,490	16,825
Goodwill and intangible assets, net	\$ 584,362	\$ 587,105

On January 1, 2012, we adopted the principles prescribed in Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2011-08 Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment which provides an entity the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test for goodwill impairment, including an annual goodwill impairment test.

During the three months ended June 30, 2012, we realigned our segments (see Note 3 Segment Information). As a result of the realignment, the composition of our reporting units has changed. We now have four reporting units as defined by ASU Topic 350 (Intangibles Goodwill and Other) which are the same as our operating segments. We re-assigned our goodwill balances using the relative fair value approach based on an evaluation of expected future discounted cash flows. The changes made to the goodwill balances of our reporting units, including the realignment for the six months ended June 30, 2012 and 2011, were as follows (shown in thousands).

	CURRENT SEGMENTS				
	Disputes, Investigations & Economics	Financial, Risk & Compliance Advisory	Healthcare	Energy	Total
FORMER SEGMENTS					
Dispute and Investigative Services	\$ 226,934	\$ 36,266	\$	\$	\$ 263,200
Business Consulting Services	2,584	10,355	115,527	66,837	195,303
Economic Consulting	61,759				61,759
International Consulting	35,181	10,341		4,496	50,018
Total new alignment as of December 31, 2011	326,458	56,962	115,527	71,333	570,280
Goodwill acquired					
Adjustments	(71)	(23)			(94)
Foreign currency	686				686
Balance at June 30, 2012	\$ 327,073	\$ 56,939	\$ 115,527	\$ 71,333	\$ 570,872

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FORMER SEGMENTS	CURRENT SEGMENTS				
	Disputes, Investigations & Economics	Financial, Risk & Compliance Advisory	Healthcare	Energy	Total
Dispute and Investigative Services	\$ 224,291	\$ 33,682	\$	\$	\$ 257,973
Business Consulting Services		12,986	113,193	66,837	193,016
Economic Consulting	61,759				61,759
International Consulting	33,428	10,341		4,485	48,254
Total new alignment as of December 31, 2010	319,478	57,009	113,193	71,322	561,002
Goodwill acquired	1,856		264	11	2,131
Adjustments	(71)	(23)			(94)
Foreign currency	3,174				3,174
Balance at June 30, 2011	\$ 324,437	\$ 56,986	\$ 113,457	\$ 71,333	\$ 566,213

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In conjunction with the realignment and our annual goodwill impairment test we completed the first step of the goodwill impairment test for our goodwill balance as of May 31, 2012 and determined that the estimated fair value of each reporting unit before and after the realignment exceeded its net asset carrying value. Accordingly, there was no indication of impairment of our goodwill and therefore the second step was not performed.

Based on the new reporting units and our fair value assumptions, the excess of estimated fair value over net asset carrying value of each of our reporting units approximated 18% for Disputes, Investigations & Economics, 37% for Financial, Risk & Compliance Advisory, 17% for Healthcare and 32% for Energy. We estimated fair value of our reporting units based on internal projections completed during our quarterly forecasting process. The key assumptions include: profit margin improvement generally consistent with our longer-term historical performance; revenue growth rates also consistent with our longer-term historical performance also considering our near term investment plans and growth objectives; discount rates that were determined based on comparables for our peer group; and cost of capital based on our averages. Each reporting unit's estimated fair value depends on various factors including their expected ability to achieve profitable growth.

When determining fair value we use various methods, including market, income and cost approaches. With these approaches, we adopt certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation. Inputs to the valuation can be readily observable, market-corroborated or unobservable. Wherever possible, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs; however, due to the use of our own assumptions about the inputs in measuring fair value, our goodwill impairment testing also makes use of significant unobservable inputs.

For the businesses acquired, (see Note 2 – Acquisitions), we have allocated the purchase prices, including amounts assigned to goodwill and intangible assets, and made estimates of their related useful lives. The amounts assigned to intangible assets for the businesses acquired include non-compete agreements, customer lists and relationships, backlog revenue and trade names.

Our intangible assets have estimated useful lives ranging up to nine years which approximates the estimated periods of consumption. We will amortize the remaining net book values of intangible assets over their remaining useful lives. At June 30, 2012, our intangible assets consisted of the following (amounts shown in thousands, except year data):

Category	Weighted Average Remaining Years	Amount
Customer lists and relationships, net	3.4	\$ 10,119
Non-compete agreements, net	2.9	861
Other intangible assets, net	2.9	2,510
 Total intangible assets, net	 3.3	 \$ 13,490

Total amortization expense for the six months ended June 30, 2012 and 2011 was \$3.4 million and \$4.5 million, respectively. Below is the estimated annual aggregate amortization expense to be recorded for the remainder of 2012 and in future years related to intangible assets at June 30, 2012 (shown in thousands):

Year Ending December 31,	Amount
2012 (July - December)	\$ 2,798
2013	4,478
2014	3,514
2015	1,719
2016	719
Thereafter	262
 Total	 \$ 13,490

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Basic net income per share (EPS) is computed by dividing net income by the number of basic shares. Basic shares are the total of the common stock outstanding and the equivalent shares from obligations presumed payable in common stock, both weighted for the average days outstanding for the period. Basic shares exclude the dilutive effect of common stock that could potentially be issued due to the exercise of stock options, vesting of restricted shares, or satisfaction of necessary conditions for contingently issuable shares. Diluted EPS is computed by dividing net income by the number of diluted shares, which are the total of the basic shares outstanding and all potentially issuable shares, based on the weighted average days outstanding for the period.

The components of basic and diluted shares (shown in thousands and based on the weighted average days outstanding for the periods) are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Basic shares	51,112	50,820	51,072	50,498
Employee stock options	94	101	158	97
Restricted stock and restricted stock units	479	152	511	158
Business combination obligations payable in fixed dollar amount of shares		197		400
Diluted shares	51,685	51,270	51,741	51,153
Antidilutive shares ¹	446	876	354	918

¹ Stock options with exercise prices greater than the average market price of our common stock during the respective time period were excluded from the computation of diluted shares because the impact of including the shares subject to these stock options in the diluted share calculation would have been antidilutive.

Obligations to issue a fixed dollar amount of shares where the number of shares is based on the trading price of our shares at the time of issuance were included in the prior year diluted EPS calculation. All of these shares were issued as of December 31, 2011.

We use the treasury stock method to calculate the dilutive effect of our common stock equivalents should they vest. The exercise of stock options or vesting of restricted shares and restricted stock unit shares triggers excess tax benefits or tax deficiencies that reduce or increase the dilutive effect of such shares being issued. The excess tax benefits or deficiencies are based on the difference between the market price of our common stock on the date the equity award is exercised or vested and the cumulative compensation cost of the stock options, restricted shares and restricted stock units. These excess tax benefits are recorded as a component of additional paid-in capital in the accompanying consolidated balance sheets and as a component of financing cash flows in the accompanying consolidated statements of cash flows. The excess tax deficiencies are recorded as a component of additional paid-in capital in the accompanying consolidated balance sheets and as a component of operating cash flows in the accompanying consolidated statements of cash flows.

6. STOCKHOLDERS EQUITY

The following summarizes the activity of stockholders equity during the six months ended June 30, 2012 (shown in thousands):

	Dollars	Shares
Stockholders equity at January 1, 2012	\$ 513,678	51,094
Comprehensive income	21,971	
Issuances of common stock	2,127	237
Issuances of restricted stock, net of forfeitures		394
Shares withheld to satisfy individual tax withholding obligations in connection with the vesting of restricted stock	(1,552)	(116)

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Tax deficiencies, net of tax benefits on restricted stock and restricted stock units vested, and stock options exercised	(245)	
Share-based compensation expense	4,939	
Additional paid-in capital recorded through compensation-related costs	750	
Common stock repurchased	(7,260)	(564)
Stockholders' equity at June 30, 2012	\$ 534,408	51,045

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During the six months ended June 30, 2012, we repurchased 563,906 shares of our common stock at a weighted average price of \$12.87. During the six months ended June 30, 2012, \$0.8 million relating to incentive compensation for the 2011 performance year to be settled in the form of restricted stock units or cash at the employee's election was recorded as additional paid in capital upon their election to receive restricted stock units (see Note 7 - Share-based compensation expense). At June 30, 2012, stockholders equity balance of \$534.4 million included an accumulated other comprehensive loss balance of \$12.0 million. This balance was comprised of an unrealized net foreign currency translation loss of \$11.8 million and an unrealized net loss on interest rate derivatives of \$0.2 million.

7. SHARE-BASED COMPENSATION EXPENSE

Share-based compensation expense is recorded for restricted stock, restricted stock units, stock options and the discount given on employee stock purchase plan transactions.

Total share-based compensation expense consisted of the following (shown in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Amortization of restricted stock and restricted stock unit awards	\$ 2,240	\$ 2,126	\$ 4,213	\$ 3,490
Amortization of stock option awards	316	261	577	526
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	52	46	149	117
Total share-based compensation expense	\$ 2,608	\$ 2,433	\$ 4,939	\$ 4,133

Share-based compensation expense attributable to consultants was included in cost of services before reimbursable expenses. Share-based compensation expense attributable to corporate management and support personnel was included in general and administrative expenses.

The following table shows the amounts attributable to each category (shown in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Cost of services before reimbursable expenses	\$ 1,461	\$ 1,481	\$ 2,859	\$ 2,351
General and administrative expenses	1,147	952	2,080	1,782
Total share-based compensation expense	\$ 2,608	\$ 2,433	\$ 4,939	\$ 4,133

Restricted Stock and Restricted Stock Units Outstanding

The measurement price of our restricted stock and restricted stock units is the closing market price of our common stock at the date of grant. Restricted stock and restricted stock units granted prior to May 22, 2012 and outstanding during the periods covered by this report were made under the Navigant Consulting, Inc. 2005 Long-Term Incentive Plan, as amended. Awards granted on or after this date were made under the Navigant Consulting Inc. 2012 Long-Term Incentive Plan approved by the Company's shareholders at its annual meeting held on May 22, 2012.

At June 30, 2012, we had \$15.6 million of total compensation costs related to unvested restricted stock and restricted stock units that have not been recognized as share-based compensation expense. The compensation costs will be recognized as an expense over the remaining vesting periods. The weighted average remaining vesting period is approximately two years.

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The following table summarizes restricted stock activity:

	For the six months ended June 30,			
	2012			2011
	Number of Shares (000 s)	Weighted Average Measurement Date Price	Number of Shares (000 s)	Weighted Average Measurement Date Price
Restricted stock outstanding at beginning of the period	1,052	\$ 15.00	1,379	\$ 15.61
Granted			106	9.52
Vested	(367)	15.57	(314)	15.96
Forfeited	(23)	11.42	(11)	18.63
Restricted stock outstanding at end of period	662	\$ 14.81	1,160	\$ 14.93

The following table summarizes restricted stock unit activity:

	For the six months ended June 30,			
	2012			2011
	Number of Shares (000 s)	Weighted Average Measurement Date Price	Number of Shares (000 s)	Weighted Average Measurement Date Price
Restricted stock units outstanding at beginning of the period	702	\$ 10.16	70	\$ 13.65
Granted	570	13.35	671	9.69
Vested	(27)	12.65	(16)	15.00
Forfeited	(14)	10.53	(3)	15.33
Restricted stock units outstanding at end of period	1,231	\$ 11.59	722	\$ 9.93

On March 15, 2012, we granted an aggregate of 96,796 restricted stock units to selected executive officers. The restricted stock units will vest on the third anniversary of the grant date if and only to the extent that specified quantitative performance goals over the three-year period are met. Share-based compensation expense for the performance-based awards is determined based on estimated performance against pre-determined measures. The value at target performance is estimated at \$1.3 million.

On April 16, 2012, we awarded \$3.5 million in incentive compensation to certain senior practitioners as part of a long-term incentive program which provides for awards in the form of restricted stock units or restricted cash, based on employee election and is based on our financial performance for the prior year. Under this program, we granted 154,272 restricted stock units with a fair value of \$2.2 million at grant date. The restricted stock units granted cliff-vest three years from grant date. The remaining \$1.3 million of the award is payable in cash three years from the grant date.

During the three months ended June 30, 2012, 109,543 restricted stock units with a fair value of \$1.5 million at grant date were granted to certain senior practitioners for retention purposes and cliff-vest four years from grant date, and 79,177 restricted stock units with a fair value of \$0.9 million (assuming a target level of financial performance) at grant date were granted to our Executive Chairman of the Board of Directors which will vest one year from grant date if certain financial performance targets are achieved.

Stock Options Outstanding

During the six months ended June 30, 2012, we granted 143,621 stock options, with an aggregate fair value of \$0.9 million at the grant date, to selected executive officers and non-employee members of our board of directors. These options vest ratably over three years and have an

exercise price equal to the closing price of our common stock on the grant date.

Table of Contents**8. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION*****Accounts Receivable, net***

The components of accounts receivable were as follows (shown in thousands):

	June 30, 2012	December 31, 2011
Billed amounts	\$ 152,841	\$ 138,664
Engagements in process	67,275	55,350
Allowance for uncollectible accounts	(14,903)	(14,973)
Accounts receivable, net	\$ 205,213	\$ 179,041

Receivables attributable to engagements in process represent balances for services that have been performed and earned but have not been billed to the client. Services are generally billed on a monthly basis for the prior month's services. Our allowance for uncollectible accounts receivable is based on historical experience and management judgment and may change based on market conditions or specific client circumstances.

Prepaid expenses and other current assets

The components of prepaid expenses and other current assets were as follows (shown in thousands):

	June 30, 2012	December 31, 2011
Notes receivable - current	\$ 7,996	\$ 7,579
Prepaid and income tax receivable	5,451	
Other prepaid expenses and other current assets	17,091	15,187
Prepaid expenses and other current assets	\$ 30,538	\$ 22,766

Other assets

The components of other assets were as follows (shown in thousands):

	June 30, 2012	December 31, 2011
Notes receivable - non-current	\$ 11,123	\$ 10,707
Prepaid expenses and other non-current assets	14,390	15,246
Other assets	\$ 25,513	\$ 25,953

Notes receivable represent unsecured employee loans. These loans were issued to recruit and retain certain senior-level consultants. During the six months ended June 30, 2012 and 2011, we issued \$5.4 million and \$4.0 million, respectively. The principal amount and accrued interest is either paid by the consultant or forgiven by us over the term of the loans so long as the consultant remains continuously employed by us and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans is recorded as compensation expense over the service period, which is consistent with the term of the loans.

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Prepaid expenses and other assets include sign-on and retention bonuses that are generally recoverable from an employee if the employee terminates employment prior to fulfilling his or her obligations to us. These amounts are amortized as compensation expense over the period in which they are recoverable from the employee generally in periods up to seven years. During the six months ended June 30, 2012 and 2011, we granted \$2.7 million and \$5.2 million, respectively, in sign-on and retention bonuses. At June 30, 2012, we had a balance of \$16.9 million in unamortized sign-on and retention bonuses included in current prepaid expenses and other current assets and non-current assets.

Table of Contents***Property and Equipment, net***

Property and equipment, net consisted of (shown in thousands):

	June 30, 2012	December 31, 2011
Furniture, fixtures and equipment	\$ 62,023	\$ 60,935
Software	36,717	35,473
Leasehold improvements	39,935	39,410
Property and equipment, at cost	138,675	135,818
Less: accumulated depreciation and amortization	(96,203)	(94,680)
Property and equipment, net	\$ 42,472	\$ 41,138

During the six months ended June 30, 2012, we made improvements to our technology infrastructure and expanded into a new lease for office space in Washington, D.C. Additionally, we disposed of \$5.8 million in fully depreciated assets. We also made a cash payment of \$1.6 million towards liabilities relating to additions made in the prior year and identified \$1.6 million of equipment, at cost, as assets held for sale which are now classified in other assets.

Other Current Liabilities

The components of other current liabilities were as follows (shown in thousands):

	June 30, 2012	December 31, 2011
Deferred acquisition liabilities	\$ 12,110	\$ 11,732
Deferred revenue	14,663	12,579
Deferred rent	1,753	2,028
Commitments on abandoned real estate	788	1,222
Interest rate swap liability (See Note 10)		417
Other liabilities	4,816	4,644
Other current liabilities	\$ 34,130	\$ 32,622

The deferred acquisition liabilities at June 30, 2012 consisted of cash obligations related to definitive and contingent purchase price considerations, which were recorded at net present value and fair value, respectively. During the six months ended June 30, 2012, we made cash payments of \$2.8 million in connection with deferred contingent acquisition liabilities relating to prior period acquisitions and \$1.1 million in connection with a definitive deferred acquisition liability. In addition, during the three months ended June 30, 2012, we made a net adjustment of \$0.6 million relating to changes in the estimated fair value of performance-based contingent acquisition liabilities included in deferred acquisition liabilities above. The current portion of deferred rent relates to rent allowances and incentives on lease arrangements for our office facilities that expire at various dates through 2022.

Deferred revenue represents advance billings to our clients for services that have not yet been performed and earned.

Other Non-Current Liabilities

The components of other non-current liabilities were as follows (shown in thousands):

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	June 30, 2012	December 31, 2011
Deferred acquisition liabilities	\$ 840	\$ 4,326
Deferred rent - long term	11,077	9,429
Commitments on abandoned real estate	303	453
Interest rate swap liability (See Note 10)	355	42
Other non-current liabilities	4,541	6,195
 Total other non-current liabilities	 \$ 17,116	 \$ 20,445

The deferred acquisition liabilities at June 30, 2012 consisted of cash obligations related to definitive and contingent purchase price considerations, which were recorded at net present value and fair value, respectively.

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The long-term portion of deferred rent is primarily rent allowances and incentives related to leasehold improvements on lease arrangements for our office facilities that expire at various dates through 2022.

9. SUPPLEMENTAL CONSOLIDATED CASH FLOW INFORMATION

Supplemental information regarding the impact of interest and taxes on cash flows is as follows (shown in thousands):

	For the six months ended June 30,	
	2012	2011
Interest paid	\$ 2,076	\$ 2,949
Income taxes paid, net of refunds	\$ 10,697	\$ 7,963

10. DERIVATIVES AND HEDGING ACTIVITY

During the six months ended June 30, 2012, the following interest rate swaps were outstanding (summarized based on date of execution):

Date executed	Number of Contracts	Beginning Date	Maturity Date	Rate	Total Notional Amount (millions)
December 2009	4	June 30, 2010	May 31, 2012	1.83%	\$60.0
March 2010	2	June 30, 2010	May 31, 2012	1.45%	\$30.0
November 2011	1	May 31, 2012	May 31, 2015	0.98%	\$10.0
December 2011	2	December 31, 2012	December 31, 2015	1.17%	\$10.0
March 2012	1	June 29, 2012	June 30, 2015	1.01%	\$5.0
May 2012	1	June 28, 2013	May 27, 2016	1.15%	\$5.0

We expect the interest rate derivatives to be highly effective against changes in cash flows related to changes in interest rates and have recorded the derivatives as a hedge. As a result, gains or losses related to fluctuations in fair value of the interest rate derivatives are recorded as a component of accumulated other comprehensive loss and reclassified into interest expense as the variable interest expense on our indebtedness is recorded. There was no ineffectiveness related to the interest rate derivatives during the six months ended June 30, 2012 or 2011. For the six months ended June 30, 2012 and 2011, we recorded \$0.5 million and \$0.6 million, respectively, in interest expense associated with differentials received or paid under the interest rate derivatives. In May 2012, \$90.0 million notional amount interest rate swaps matured.

At June 30, 2012, we had a \$0.4 million net liability related to the interest rate derivatives. During the six months ended June 30, 2012, we recorded \$0.1 million of unrealized gains related to our derivatives, which is net of income taxes, to accumulated other comprehensive income.

11. BANK DEBT

Our credit agreement provides a five-year, \$400.0 million revolving credit facility. At our option, subject to the terms and conditions specified in the credit agreement, we may elect to increase the commitments under the credit facility up to an aggregate amount of \$500.0 million. The credit facility matures on May 27, 2016, at which time borrowings will be payable in full. Borrowings and repayments may be made in multiple currencies, including U.S. Dollars, Canadian Dollars, UK Pound Sterling and Euro.

At June 30, 2012, we had aggregate borrowings of \$167.7 million, compared to \$131.8 million at December 31, 2011. Based on our financial covenants at June 30, 2012, a maximum of approximately \$180.0 million was available in additional borrowings under the credit facility.

At our option, borrowings under the credit facility bear interest at a variable rate equal to an applicable base rate or LIBOR, in each case plus an applicable margin. For LIBOR loans, the applicable margin will vary depending upon our consolidated leverage ratio (the ratio of total funded debt to adjusted EBITDA, as defined in the credit agreement). At June

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30, 2012, the applicable margins on LIBOR and base rate loans were 1.25% and 0.25%, respectively. Depending upon our performance and financial condition, our LIBOR loans will have applicable margins varying between 1.00% and 2.00% and our base rate loans will have applicable margins varying between zero and 1.00%. Our average borrowing rate (including the impact of our interest rate swap agreements; see Note 10 Derivatives and Hedging Activity) was 2.6% and 2.8% for the three months ended June 30, 2012 and 2011, respectively, and 2.9% and 2.8% for the six months ended June 30, 2012 and 2011, respectively.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.25:1 (except for the first quarter of each calendar year when the covenant requires us to maintain a consolidated leverage ratio of not greater than 3.5:1) and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBITDA, as defined in the credit agreement) and rental expense to the sum of cash interest expense and rental expense) of not less than 2.0:1. At June 30, 2012, under the definitions in the credit agreement, our consolidated leverage ratio was 1.6 and our consolidated interest coverage ratio was 4.2. In addition, the credit agreement contains customary affirmative and negative covenants (subject to customary exceptions), including covenants that limit our ability to incur liens or other encumbrances, make investments, incur indebtedness, enter into mergers, consolidations and asset sales, change the nature of our business and engage in transactions with affiliates, as well as customary provisions with respect to events of default. We were in compliance with the terms of our credit agreement at June 30, 2012; however, there can be no assurances that we will remain in compliance in the future.

12. FAIR VALUE

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3: Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our interest rate derivatives (see Note 10 Derivatives and Hedging Activity) are valued using counterparty quotations in over-the-counter markets. In addition, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk. The credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by ourselves and our counterparties. However, at June 30, 2012, we assessed the significance of the impact on the overall valuation and believe that these adjustments are not significant. As such, our interest rate derivatives are classified within Level 2.

At June 30, 2012, the carrying value of our bank debt approximated fair value. We consider the recorded value of our other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2012 based upon the short-term nature of the assets and liabilities.

The following table summarizes the financial liabilities measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011 (shown in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At June 30, 2012				
Interest rate swaps, net (recorded in other non-current liabilities)		\$ 355		\$ 355
At December 31, 2011				

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Interest rate swaps, net (recorded in other current/non-current liabilities)	\$	459	\$ 459
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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Management's Discussion and Analysis of Financial Condition and Results of Operations relates to, and should be read in conjunction with, our consolidated financial statements included elsewhere in this report.

Overview

We are an independent specialty consulting firm that combines deep industry knowledge with broad technical expertise. We focus on industries that typically undergo substantial regulatory or structural change and provide services to enable clients to manage the uncertainty, risk and distress caused by those changes. The nature of our services, as well as our clients' demand for our services, are impacted not only by these regulatory and structural changes, but also by the United States and global economies and other significant events specific to our clients.

Our clients' demand for our services ultimately drives our revenues and expenses. We derive our revenues from fees on services provided. The majority of our revenues are generated on a time and materials basis, though we also have engagements where fees are a fixed amount (either in total or for a period of time) and others where fees are earned based on data processed or hosted. From time to time, we may also earn incremental revenues, in addition to hourly or fixed fees, which are contingent on the attainment of certain contractual milestones or objectives. We also recognize revenues from business referral fees or commissions on certain contractual outcomes. These performance based and referral revenues may cause unusual variations in our quarterly revenues and results of operations. Regardless of the terms of our fee arrangements, our ability to earn those fees is reliant on deploying consultants with the experience and expertise to deliver services.

Our most significant expense is consultant compensation, which includes salaries, incentive compensation, amortization of sign-on and retention incentive payments, share-based compensation and benefits. Consultant compensation is included in cost of services before reimbursable expenses, in addition to practice specific sales and marketing expenses and the direct costs of recruiting and training consultants.

Our most significant overhead expenses are administrative compensation and benefits and office-related expenses. Administrative compensation includes salaries, incentive compensation, share-based compensation and benefits for corporate management and administrative personnel. Office-related expenses primarily consist of rent for our offices. Other administrative costs include bad debt expense, marketing, legal, technology, finance and human capital management.

Because our ability to derive fees is largely reliant on the hiring and retention of personnel, the average number of full-time equivalents (FTEs) and their utilization levels are important drivers of our business. The average number of FTEs is adjusted for part-time status and takes into account hiring and attrition which occurred during the reporting period. Our average utilization rate as defined below provides a benchmark for how well we are managing our FTEs in response to changing demand.

While hiring and retention of personnel is key to driving revenues, excessive FTE levels and related consultant compensation costs may negatively impact margin. From time to time, we utilize independent contractors and project employees to supplement our consultants on certain engagements, which allows us to adjust staffing in response to changes in demand for our services, and manage our costs accordingly.

In connection with recruiting activities and business acquisitions, our general policy is to obtain non-solicitation covenants from senior and some mid-level consultants. Most of these covenants have restrictions that extend 12 months beyond the termination of employment. We utilize these contractual agreements and other agreements to reduce the risk of attrition and to safeguard our existing clients, staff and projects.

In addition to managing the number of employees and utilization of consultants, we also continually review and adjust, if necessary, our consultants' total compensation (including salaries, annual cash incentive compensation, other cash and share-based compensation, and benefits) to ensure that it is competitive within the industry and is consistent with our performance. We also monitor and adjust our bill rates according to then-current market conditions for our service offerings and within the various industries we serve.

Acquisitions

2011 Acquisitions

On July 15, 2011, we acquired the assets of Ignited Solutions, LLC to expand our technology advisory solutions services. Ignited was a discovery services consulting group specializing in electronic discovery data collection, data processing and data hosting. This acquisition included 27 professionals and has been integrated into our Disputes, Investigations & Economics segment. We paid \$6.3 million in cash at closing, and Ignited can earn up to \$3.0 million of additional payments based on the business achieving certain performance targets over the 30 months after closing. We estimated the fair value of the contingent consideration on the date of

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purchase to be \$2.6 million. The liability was recorded as other current and non-current liabilities. During the six months ended June 30, 2012, we settled \$1.0 million of the contingent consideration and recorded \$0.4 million of other operating costs reflecting a fair value adjustment of the contingent consideration. At June 30, 2012 the contingent liability balance was \$2.0 million (See Note 8 Supplemental Consolidated Balance Sheet Information). As part of the purchase price allocation, we recorded \$1.2 million in accounts receivable, \$0.5 million in property and equipment, \$1.5 million in identifiable intangible assets and \$5.8 million in goodwill. The purchase price paid in cash at closing was funded with borrowings under our credit facility.

Also, during 2011, we acquired two small businesses, one in May 2011 and one in October 2011, for an aggregate purchase price of \$4.6 million, of which \$2.9 million was paid in cash at closing. One of the acquired businesses was integrated into our Disputes, Investigations & Economics segment and the other was integrated into our Healthcare segment.

Key Operating Metrics

We include the following metrics in order to provide additional operating information related to our business and reporting segments. These key operating metrics may not be comparable to similarly-titled metrics at other companies. During the three months ended June 30, 2012, in connection with our realignment (see Note 3 Segment Information to the notes to our unaudited consolidated financial statements), we revised the definition of our technology businesses. Our Technology, Data & Process business is composed of technology solutions, invoice and insurance claims processing, market research and benchmarking businesses. Prior period operating metrics have been revised to reflect all changes made to the following definitions.

Average FTE is our average headcount during the reporting period adjusted for part-time status. Average FTE is further split between the following categories:

Consulting FTE individuals assigned to client services who record time to client engagements;

Technology, Data & Process FTE individuals in businesses primarily dedicated to maintaining and delivering the services described above, who do not generally record time to specific client projects; and therefore, are not included in average bill rate and average utilization metrics described below;

Non-billable FTE individuals assigned to administrative and support functions, including office services, corporate functions, and certain practice support functions.

Period-end FTE represents our headcount at the last day of the reporting period adjusted for part-time status. Consulting, Technology, Data & Process and non-billable criteria also apply to period-end FTE.

Average bill rate is calculated by dividing fee revenues before certain adjustments, such as discounts and markups, by the number of hours associated with the fee revenues. Fee revenues and hours billed on performance based services and related to Technology, Data & Process FTE are excluded from average bill rate. As discussed above, changes in our definition of our Technology, Data & Process business resulted in changes to previously reported average bill rate.

Average utilization rate is calculated by dividing the number of hours of our consulting FTE who recorded time to client engagements during a period, by the total available working hours for these consultants during the same period (1,850 hours annually). As discussed above, changes in our definition of our Technology, Data & Process business resulted in changes to previously reported average utilization.

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Billable hours are the number of hours our consulting FTE recorded time to client engagements during the reporting period.

Segment operating profit represents total revenues less costs of services excluding long-term compensation expense attributable to consultants. Long-term compensation expense related to consultants includes share-based compensation expense and compensation expense attributable to retention incentives.

All FTE, utilization, and average bill rate metric data provided in this report excludes the impact of independent contractors and project employees.

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Results for the three and six months ended June 30, 2012 compared to the three and six months ended June 30, 2011

	For the three months ended June 30,		2012 over 2011 Increase (Decrease) Percentage	For the six months ended June 30,		2012 over 2011 Increase (Decrease) Percentage
	2012	2011		2012	2011	
Key operating metrics:						
Average FTE						
-Consulting	1,550	1,542	0.5	1,560	1,555	0.3
-Technology, Data & Process	342	222	54.1	334	218	53.2
-Non-billable	532	527	0.9	528	527	0.2
Period end FTE						
-Consulting	1,522	1,546	(1.6)	1,522	1,546	(1.6)
-Technology, Data & Process	351	222	58.1	351	222	58.1
-Non-billable	542	526	3.0	542	526	3.0
Average bill rate	\$ 281	\$ 283	(0.7)	\$ 285	\$ 282	1.1
Utilization	73 %	80 %	(8.8)	75 %	79 %	(5.1)

During the three months ended June 30, 2012 compared to the corresponding period in 2011, we reported a \$1.2 million decrease in net income. A 4.8% increase in revenues before reimbursements was more than offset by higher costs of services as well as higher general and administrative expenses and higher depreciation expense.

During the six months ended June 30, 2012 compared to the corresponding period in 2011, we reported a \$1.7 million, or 8.5%, increase in net income. Revenues before reimbursements increased by 7.3% over the corresponding period in 2011 and were partially offset by increased costs of services, gener