NAVIGANT CONSULTING INC
Form 10-Q
May 05, 2010

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the three months ended March 31, 2010

OR

o **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)

Delaware	**36-4094854**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer 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 þ NO o

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 o NO o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

As of May 5, 2010, 50.6 million shares of the Registrant s common stock, par value $.001 per share (Common Stock), were outstanding.

NAVIGANT CONSULTING, INC.
AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2010
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	March 31, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 361	$ 49,144
Accounts receivable, net	174,690	163,608
Prepaid expenses and other current assets	18,306	16,374
Deferred income tax assets	13,930	19,052
Total current assets	207,287	248,178
Property and equipment, net	41,592	42,975
Intangible assets, net	28,405	30,352
Goodwill	487,355	485,101
Other assets	13,378	13,639
Total assets	$ 778,017	$ 820,245
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 9,267	$ 8,203
Accrued liabilities	10,130	8,664
Accrued compensation-related costs	39,100	69,751
Term loan current	14,258	12,375
Other current liabilities	35,595	34,441
Total current liabilities	108,350	133,434
Non-current liabilities:		
Deferred income tax liabilities	38,016	37,096
Other non-current liabilities	25,069	23,923
Term loan non-current	164,657	207,000
Bank debt non-current	18,360	
Total non-current liabilities	246,102	268,019
Total liabilities	354,452	401,453
Stockholders equity:		
Common stock	60	60
Additional paid-in capital	560,278	559,368
Treasury stock	(218,700)	(218,798)

Retained earnings	97,633	91,186
Accumulated other comprehensive loss	(15,706)	(13,024)
Total stockholders equity	423,565	418,792
Total liabilities and stockholders equity	$ 778,017	$ 820,245

See accompanying notes to the unaudited consolidated financial statements.

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

	For the three months ended March 31,	
	2010	**2009**
Revenues before reimbursements	$ 153,870	$ 167,212
Reimbursements	19,680	15,150
Total revenues	173,550	182,362
Cost of services before reimbursable expenses	102,230	110,267
Reimbursable expenses	19,680	15,150
Total costs of services	121,910	125,417
General and administrative expenses	30,460	34,893
Depreciation expense	3,801	4,640
Amortization expense	2,796	3,620
Other operating costs:		
Office consolidation		908
Operating income	14,583	12,884
Interest expense	3,478	3,968
Interest income	(313)	(296)
Other expense (income), net	105	(321)
Income before income tax expense	11,313	9,533
Income tax expense	4,866	4,100
Net income	$ 6,447	$ 5,433
Basic net income per share	$ 0.13	$ 0.11
Shares used in computing income per basic share	48,691	47,443
Diluted net income per share	$ 0.13	$ 0.11
Shares used in computing income per diluted share	50,096	49,449

See accompanying notes to the unaudited consolidated financial statements.

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

	For the three months ended March 31, 2010	2009
Cash flows from operating activities:		
Net income	$ 6,447	$ 5,433
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	3,801	4,640
Depreciation expense office consolidation		608
Amortization expense	2,796	3,620
Share-based compensation expense	975	2,506
Accretion of interest expense	205	278
Deferred income taxes	5,319	2,778
Allowance for doubtful accounts receivable	1,584	3,754
Changes in assets and liabilities:		
Accounts receivable	(13,610)	(22,652)
Prepaid expenses and other assets	(1,250)	(2,270)
Accounts payable	1,155	2,155
Accrued liabilities	2,146	(334)
Accrued compensation-related costs	(30,416)	(31,842)
Income taxes payable	(609)	(1,821)
Other liabilities	500	(1,464)
Net cash used in operating activities	(20,957)	(34,611)
Cash flows from investing activities:		
Purchases of property and equipment	(3,056)	(5,708)
Acquisition of business	(4,000)	(1,875)
Payments of acquisition liabilities		(2,821)
Other, net		(40)
Net cash used in investing activities	(7,056)	(10,444)
Cash flows from financing activities:		
Issuances of common stock	661	1,672
Payments of notes payable		(355)
Borrowings from banks, net of repayments	19,315	28,802
Payments of term loan	(40,460)	(562)
Other, net	(390)	(706)
Net cash (used in) provided by financing activities	(20,874)	28,851
Effect of exchange rate changes on cash	104	(187)
Net decrease in cash and cash equivalents	(48,783)	(16,391)
Cash and cash equivalents at beginning of the period	49,144	23,134

Cash and cash equivalents at end of the period	$ 361	$ 6,743

See accompanying notes to the unaudited consolidated financial statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

We are 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. Professional services include dispute, investigative, financial, operational and business advisory, risk management and regulatory advisory, strategy, economic analysis and transaction advisory solutions. We provide our services to government agencies, legal counsel and large companies facing the challenges of uncertainty, risk, distress and significant change. We focus on industries undergoing substantial regulatory or structural change and on the issues driving these transformations.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. The information furnished herein includes all adjustments, consisting of normal recurring adjustments except where indicated, which are, in the opinion of management, necessary for a fair presentation of the results of operations for these interim periods.

The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2010.

These financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2009 included in the Annual Report on Form 10-K, as filed by us with the Securities and Exchange Commission on February 19, 2010. Certain amounts in prior years consolidated financial statements have been reclassified to conform to the current year s presentation including the reclassification of the prior year segment information (see Note 3 Segment Information).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the 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 subsequent events through the date of this filing. We do not believe there are any material subsequent events which would require further disclosure.

Note 2. Acquisitions

On January 20, 2010, we acquired the assets of Empiris, LLC, located in Washington, D.C. for $5.5 million, which consisted of $4.0 million in cash paid at closing and $1.5 million, recorded in other liabilities, to be paid in cash in two equal installments on December 31, 2010 and January 3, 2012. In addition, the purchase agreement contains a provision for contingent consideration of up to $2.0 million in cash. The contingent consideration is based on the business achieving certain performance targets during the periods from closing to December 31, 2010 and in calendar years 2011 and 2012 and will be payable in March of the year following the year such performance targets are attained. Fair value of the contingent consideration, recorded in other liabilities, was estimated to be $1.9 million and was determined based on level two observable inputs (see Note 11 Fair Value) and will be recalculated each reporting period with any resulting gains or losses being recorded in the income statement. As part of the purchase price allocation, we recorded $1.6 million in identifiable intangible assets and $5.8 million in goodwill. This acquisition consisted of nine consulting professionals and has been included in the Economic Consulting segment.

On December 31, 2009, we acquired the assets of Summit Blue Consulting, LLC for $13.0 million, which consisted of $11.0 million in cash paid at closing and two deferred cash payments of $1.0 million each, due on the first and second anniversaries of the closing. As part of the purchase price allocation, we recorded $2.6 million in identifiable intangible assets and $10.4 million in goodwill. The purchase price paid in cash at closing was funded with cash from operations.

We acquired Summit Blue to expand and complement our energy practice with new service lines to our clients. Summit Blue specializes in resource planning, energy efficiency, demand response, and renewable energy consulting services for utilities, public agencies, and other clients. Summit Blue, headquartered in Boulder, Colorado, had approximately 60 consultants at the time of acquisition and has been included in our Business Consulting Services segment.

Note 3. Segment Information

Our business is organized in four reportable segments Dispute and Investigative Services, Business Consulting Services, International Consulting and Economic Consulting. These reportable segments are generally defined by the nature of their services and geography and may be the aggregation of multiple operating segments as indicated in the description below. During the first quarter of 2010, certain organizational changes were made, which along with other factors, resulted in the identification of two additional operating segments and the repositioning of certain service offerings between the segments. Prior year comparative segment data has been restated to be consistent with the current presentation.

The Dispute and Investigative Services reporting segment provides a wide range of services to clients facing the challenges of disputes, litigation, forensic investigation, discovery and regulatory compliance. The clients of this segment are principally law firms, corporate general counsel and corporate boards.

The Business Consulting Services reporting segment provides strategic, operational, financial, regulatory and technical management consulting services to clients. Beginning with the first quarter of 2010, the Energy and Healthcare business units are now defined as operating segments due to their size, importance and organizational reporting relationships. The reporting segment is comprised of three operating segments, Energy, Healthcare and other business consulting practices, which is primarily associated with providing operations advisory, valuation and restructuring services to financial services and other markets. The clients are principally C suite and corporate management, government entities and law firms.

The International Consulting reporting segment provides a mix of dispute and business consulting services to clients predominately outside North America. The clients are principally C suite and corporate management, government entities, and law firms

The Economic Consulting reporting segment provides economic and financial analyses of complex legal and business issues principally for law firms, corporations and government agencies. Expertise includes areas such as antitrust, corporate finance and governance, bankruptcy, intellectual property, investment banking, labor market discrimination and compensation, corporate valuation and securities litigation.

	For the three months ended March 31,	
	2010	**2009**
Revenues before reimbursements:		
Dispute and Investigative Services	$ 63,338	$ 71,903
Business Consulting Services	57,399	66,906
International Consulting	16,145	15,516
Economic Consulting	16,988	12,887
Total revenues before reimbursements	$ 153,870	$ 167,212
Total revenues:		
Dispute and Investigative Services	$ 67,894	$ 77,496
Business Consulting Services	66,250	73,516
International Consulting	20,797	17,303
Economic Consulting	18,609	14,047
Total revenues	$ 173,550	$ 182,362
Segment operating profit:		
Dispute and Investigative Services	$ 25,408	$ 28,234
Business Consulting Services	19,017	23,452
International Consulting	3,740	4,176

Economic Consulting	6,296	4,644
Total combined segment operating profit	54,461	60,506
Segment operating profit reconciliation to income before income tax expense:		
Unallocated:		
General and administrative expenses	30,460	34,893
Depreciation expense	3,801	4,640
Amortization expense	2,796	3,620
Long term compensation expense related to consulting personnel (including share based compensation)	2,821	3,561
Other operating expenses		908
Operating income	14,583	12,884
Other expense, net	3,270	3,351
Income before income tax expense	$ 11,313	$ 9,533

Long term compensation expense related to consulting personnel includes share based compensation expense and compensation expense attributed to forgivable loans (see 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. Certain unallocated expense amounts, related to specific reporting segments, have been excluded from the segment operating profit to be consistent with the information used by management to evaluate segment performance. We record accounts receivable, goodwill and intangible assets on a segment basis. Other balance sheet amounts are not maintained on a segment basis.

Total assets by segment were as follows (shown in thousands):

	March 31, 2010	December 31, 2009
Dispute and Investigative Services	$ 307,410	$ 304,744
Business Consulting Services	217,382	212,975
International Consulting	78,983	86,195
Economic Consulting	86,675	75,147
Unallocated assets	87,567	141,184
Total assets	$ 778,017	$ 820,245

Note 4. Goodwill and Intangible Assets

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

	March 31, 2010	December 31, 2009
Goodwill	$ 492,780	$ 490,526
Less accumulated amortization	(5,425)	(5,425)
Goodwill, net	487,355	485,101
Intangible assets:		
Customer lists and relationships	63,790	63,697
Non-compete agreements	19,688	19,701
Other	19,851	19,589
Intangible assets, at cost	103,329	102,987
Less accumulated amortization	(74,924)	(72,635)
Intangible assets, net	28,405	30,352
Goodwill and intangible assets, net	$ 515,760	$ 515,453

On a periodic basis, we are required to consider whether or not the fair value of each of the reporting units could have fallen below its carrying value. We consider elements and other factors including, but not limited to, changes in the business climate in which we operate, attrition of key personnel, unanticipated competition, our market capitalization in excess of our book value, our recent operating performance and our financial projections. As a result of this review we are required to determine whether such an event or condition existed that would require us to perform an interim goodwill impairment test prior to our next annual test date. We continue to monitor these factors and we may perform additional impairment tests as appropriate in future periods.

Our annual test is completed in the second quarter of each year. During the first quarter of 2010, in connection with recent organizational changes and the repositioning of certain service offerings between our reporting units, we completed an interim impairment test of our goodwill balances as of February 28, 2010. The impairment test was completed based on our historical reporting units prior to the repositioning of certain service offerings in the first quarter of 2010. There was no indication of impairment based on our analysis. We will complete the impairment analysis again in the second quarter of 2010, which will reflect the updated segment financial results.

As of our February 28, 2010 analysis, the excess of estimated fair value over net asset carrying value of the Business Consulting Services reporting unit and the Dispute and Investigative Services reporting unit were approximately 30% and 40% of estimated fair value, respectively. The excess of estimated fair value over the net asset carrying value of the International Consulting and Economic Consulting reporting units were approximately 30% and 20% of estimated fair value, respectively, and given the smaller size of these reporting units the relative dollars of the excess are substantially smaller than for the other two reporting units. Further, the estimated fair value of the International Consulting and Economic Consulting reporting units may be more volatile due to the reporting units smaller size and higher expected earnings growth rates. Also, given the International Consulting reporting unit s involvement in emerging markets, its estimated fair value may be more volatile. Additionally, the Economic Consulting reporting unit is substantially comprised of recent acquisitions and its estimated fair value is dependent on the success of such acquisitions. The key assumptions used in our February 28, 2010 analysis included profit margin improvement to be generally consistent with our longer term historical performance, revenue growth rates ahead of the industry in the near term and discount rates determined based on comparables for our peer group. Our fair value estimates were made as of the date of our analysis and are subject to change.

We review our intangible asset values on a periodic basis. We had $28.4 million in intangible assets, net of accumulated amortization as of March 31, 2010. Of the $28.4 million balance, $21.3 million related to customer lists and relationships, $3.0 million related to non-compete agreements and $4.1 million related to other intangible assets. As of March 31, 2010, the weighted average remaining life for customer lists and relationships, non-compete agreements and other intangible assets was 4.2 years, 2.1 years and 3.4 years, respectively. We have reviewed the estimated period of consumption for our intangible assets. As of March 31, 2010, there was no indication of impairment related to our intangible assets. Our intangible assets have estimated useful lives which range up to seven years. We will amortize the remaining net book values of intangible assets over their remaining useful lives.

During 2009, we completed a strategic review. As a result, we repositioned and wound-down several service lines which resulted in a narrower focus on certain strategic businesses on a global basis disputes, economics, healthcare and energy. On an ongoing basis, we expect to continue to evaluate our strategic and competitive position. As we review our portfolio of services in the future, we may exit certain markets or reposition certain service offerings within our business. Consistent with past evaluations, this evaluation may result in our redefining our operating segments and may impact a significant portion of one or more of our reporting units. As noted above, if such actions occur, they may be considered triggering events that would result in our performing an interim impairment test of our goodwill and an impairment test of our intangible assets.

We use various methods to determine fair value, 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 valuation can be readily observable, market-corroborated, or unobservable. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value measurements used for our goodwill impairment testing use significant unobservable inputs which reflect our own assumptions about the inputs that market participants would use in measuring fair value including risk considerations.

The changes in carrying values of goodwill and intangible assets (shown in thousands) are as follows:

	For the three months ended March 31,	
	2010	**2009**
Beginning of period Goodwill, net	$ 485,101	$ 463,058
Goodwill acquired	5,807	1,768
Adjustments to goodwill	(44)	
Foreign currency translation goodwill	(3,509)	(1,650)
End of period Goodwill, net	$ 487,355	$ 463,176
Beginning of period Intangible assets, net	$ 30,352	$ 38,108
Intangible assets acquired	1,572	(44)
Foreign currency translation intangible assets, net	(723)	(335)

Less amortization expense	(2,796)	(3,620)
End of period Intangible assets, net	$ 28,405	$ 34,109

As of March 31, 2010, goodwill and intangible assets, net of amortization, was $225.5 million for Dispute and Investigative Services, $163.9 million for Business Consulting Services, $61.0 million for International Consulting and $65.4 million for Economic Consulting.

Total amortization expense for the three months ended March 31, 2010 and 2009 was $2.8 million and $3.6 million, respectively. Below is the estimated aggregate amortization expense to be recorded for the remainder of 2010 and for each of the four years following related to intangible assets at March 31, 2010 (shown in thousands):

For the period ending December 31,	**Amount**
2010	$ 7,489
2011	7,711
2012	5,229
2013	4,160
2014	2,680
Thereafter	1,136
Total	$ 28,405

Note 5. Net Income per Share (EPS)

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 March 31,	
	2010	**2009**
Common shares outstanding	48,691	47,410
Business combination obligations payable in a fixed number of shares		33
Basic shares	48,691	47,443
Employee stock options	329	351
Restricted shares and stock units	177	259
Business combination obligations payable in a fixed dollar amount of shares	890	1,345
Contingently issuable shares	9	51
Diluted shares	50,096	49,449

For the three months ended March 31, 2010 and 2009, we had outstanding stock options for approximately 318,000 and 362,000 shares, respectively, which were excluded from the computation of diluted shares because these shares had exercise prices greater than the average market price and the impact of including these options in the diluted share calculation would have been antidilutive.

In connection with certain business acquisitions, we are obligated to issue a certain number of shares of our common stock. Obligations to issue a fixed number of shares are included in the basic earnings per share calculation. 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 are included in the diluted earnings per share calculation. As part of the Chicago Partners acquisition, we issued approximately 450,000 shares of our common stock on April 30, 2010 and are obligated to issue shares based on a fixed dollar amount of $5.8 million on May 1, 2011. For the three months ended March 31, 2010, the diluted share computation included 0.9 million shares related to the Chicago Partners deferred purchase price obligations.

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.

Note 6. Stockholders Equity

The following summarizes the activity of stockholders equity during the three months ended March 31, 2010 (shown in thousands):

	Dollars	Shares
Stockholders equity at January 1, 2010	$ 418,792	48,651
Comprehensive income	3,765	
Other issuances of common stock	661	69
Net settlement of employee taxes on taxable compensation related to the vesting of restricted stock	(428)	(34)
Tax benefits on stock options exercised and restricted stock vested	(200)	
Issuances of restricted stock, net of forfeitures		152
Share-based compensation expense	975	
Stockholders equity at March 31, 2010	$ 423,565	48,838

Note 7. Share-Based Compensation Expense

Share-based Compensation Expense

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

	For the three months ended March 31,	
	2010	2009
Amortization of restricted stock awards	$ 734	$ 2,174
Amortization of stock option awards	209	112
Fair value adjustment for variable stock option accounting awards	(33)	(40)
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	65	260