NAVIGANT CONSULTING INC
Form 10-Q
October 29, 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 nine months ended September 30, 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 þ 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 October 29, 2010, 50.0 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 NINE MONTHS ENDED SEPTEMBER 30, 2010
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements
NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,383	$ 49,144
Accounts receivable, net	178,881	163,608
Prepaid expenses and other current assets	19,210	16,374
Deferred income tax assets	15,753	19,052
Total current assets	219,227	248,178
Property and equipment, net	39,648	42,975
Intangible assets, net	27,357	30,352
Goodwill	525,755	485,101
Other assets	24,699	13,639
Total assets	$ 836,686	$ 820,245
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,555	$ 8,203
Accrued liabilities	8,087	8,664
Accrued compensation-related costs	59,238	69,751
Income tax payable	193	
Term loan current	18,397	12,375
Other current liabilities	38,552	34,441
Total current liabilities	135,022	133,434
Non-current liabilities:		
Deferred income tax liabilities	43,628	37,096
Other non-current liabilities	19,978	23,923
Bank debt non-current	25,515	
Term loan non-current	155,458	207,000
Total non-current liabilities	244,579	268,019
Total liabilities	379,601	401,453
Stockholders equity:		
Common stock	60	60
Additional paid-in capital	564,149	559,368

Treasury stock		(209,861)		(218,798)
Retained earnings		114,684		91,186
Accumulated other comprehensive loss		(11,947)		(13,024)
Total stockholders equity		457,085		418,792
Total liabilities and stockholders equity	$	836,686	$	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 September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Revenues before reimbursements	$ 153,222	$ 159,153	$ 461,709	$ 483,697
Reimbursements	21,625	18,210	59,011	49,584
Total revenues	174,847	177,363	520,720	533,281
Cost of services before reimbursable expenses	102,368	100,545	306,726	312,779
Reimbursable expenses	21,625	18,210	59,011	49,584
Total costs of services	123,993	118,755	365,737	362,363
General and administrative expenses	30,789	32,500	90,338	100,906
Depreciation expense	3,528	4,352	10,882	13,312
Amortization expense	3,168	3,055	8,926	10,067
Other operating costs (benefit):				
Office consolidation	(900)	985	(900)	6,505
Operating income	14,269	17,716	45,737	40,128
Interest expense	1,789	3,671	8,775	11,591
Interest income	(360)	(300)	(984)	(908)
Other expense (income), net	(250)	214	(189)	(194)
Income before income tax expense	13,090	14,131	38,135	29,639
Income tax expense	3,867	5,791	14,637	12,481
Net income	$ 9,223	$ 8,340	$ 23,498	$ 17,158
Basic net income per share	$ 0.19	$ 0.17	$ 0.48	$ 0.36
Shares used in computing income per basic share	49,662	48,493	49,186	48,050
Diluted net income per share	$ 0.18	$ 0.17	$ 0.47	$ 0.35
Shares used in computing income per diluted share	50,518	49,954	50,292	49,720

See accompanying notes to the unaudited consolidated financial statements.

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

	For the nine months ended September 30, 2010	2009
Cash flows from operating activities:		
Net income	$ 23,498	$ 17,158
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	10,882	13,312
Depreciation expense office consolidation		1,110
Amortization expense	8,926	10,067
Share-based compensation expense	4,776	6,010
Accretion of interest expense	620	693
Deferred income taxes	7,647	822
Allowance for doubtful accounts receivable	7,105	14,253
Changes in assets and liabilities:		
Accounts receivable	(22,550)	(25,550)
Prepaid expenses and other assets	(10,499)	3,352
Accounts payable	2,432	(2,495)
Accrued liabilities	9	(761)
Accrued compensation-related costs	(10,458)	(21,326)
Income taxes payable	(2,302)	4,032
Other liabilities	(5,946)	2,566
Net cash provided by operating activities	14,140	23,243
Cash flows from investing activities:		
Purchases of property and equipment	(8,115)	(13,623)
Acquisitions of businesses	(33,870)	(1,875)
Payments of acquisition liabilities		(2,821)
Other, net		(109)
Net cash used in investing activities	(41,985)	(18,428)
Cash flows from financing activities:		
Issuances of common stock	3,013	2,686
Payments of notes payable		(4,482)
Borrowings from banks, net of repayments	25,941	(10,096)
Payments of term loan	(45,520)	(1,688)
Other, net	564	(888)
Net cash used in financing activities	(16,002)	(14,468)
Effect of exchange rate changes on cash	86	(139)
Net decrease in cash and cash equivalents	(43,761)	(9,792)
Cash and cash equivalents at beginning of the period	49,144	23,134

Cash and cash equivalents at end of the period	$ 5,383	$ 13,342

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 nine months ended September 30, 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 determined that we had one subsequent event which has been disclosed in Note 15 Subsequent Events.

Note 2. Acquisitions

On May 14, 2010, we acquired assets of Daylight Forensic and Advisory, LLC, located in New York City, New York for approximately $40.0 million, which consisted of $29.9 million in cash paid at closing and $10.0 million, recorded in other current liabilities, to be paid in cash on the first anniversary of the closing date. As part of the purchase price allocation, we recorded $4.5 million in identifiable intangible assets and $35.2 million in goodwill. The purchase price paid in cash at closing was funded under our credit facility.

We acquired Daylight to enhance our investigative service offering and add significant presence in our strong New York market. Daylight is a regulatory consulting and investigative firm specializing in regulatory compliance and fraud risk management, with deep capabilities in anti-money laundering and the Foreign Corrupt Practices Act related matters. This acquisition included 65 consulting professionals and Daylight has been integrated in our Dispute and Investigative Services segment.

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 current and non-current 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 current and non-current liabilities, was estimated to be $1.9 million and was determined based on level two observable inputs and will be recalculated each reporting period with any resulting gains or losses being recorded in the income statement. No such gains or losses were recorded during the nine months ended September 30, 2010. As part of the purchase price

allocation, we recorded $1.6 million in identifiable intangible assets and $5.8 million in goodwill. The purchase price paid in cash at closing was funded with cash from operations.

We acquired Empiris to enhance our Economic Consulting segment. Empiris provides significant expertise and growth opportunity in our Washington, D.C. market by servicing relevant government agencies, corporations and law firms. This acquisition consisted of nine 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, recorded in other current and non-current liabilities, 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.

The Summit Blue acquisition was made to expand and complement our energy practice. 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, consists of approximately 60 consultants and has been included in our Business Consulting Services segment.

Pro Forma Information

The following table summarizes certain supplemental unaudited pro forma financial information which was prepared as if the 2009 and 2010 acquisitions had occurred at the beginning of the periods presented. The unaudited pro forma financial information 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 that may occur in the future.

	For the three months ended September 30,		**For the nine months ended September 30,**	
	2010	**2009**	**2010**	**2009**
Total revenues (in thousands)	$ 174,847	$ 186,637	$ 533,089	$ 569,259
Net income (in thousands)	$ 9,223	$ 6,750	$ 22,359	$ 14,202
Basic net income per share	$ 0.19	$ 0.14	$ 0.45	$ 0.30
Diluted net income per share	$ 0.18	$ 0.14	$ 0.44	$ 0.29

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 within the Business Consulting Services segment 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, principally C suite and corporate management, government entities and law firms. Beginning as of the first quarter of 2010, the reporting segment is comprised of three operating segments: Energy, Healthcare and Other Business Consulting practices. The Energy and Healthcare business units are defined as operating segments due to their size, importance and organizational reporting relationships. The Energy and Healthcare operating segments provide services to clients in those respective markets and Other Business Consulting practice provides operations advisory, valuation and restructuring services to financial services and other markets.

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 September 30,		For the nine months ended September 30,	
(Amounts in Thousands)	**2010**	**2009**	**2010**	**2009**
Revenues before reimbursements:				
Dispute and Investigative Services	$ 64,997	$ 69,260	$ 188,072	$ 211,287
Business Consulting Services	58,406	58,749	179,235	183,538
International Consulting	13,231	17,266	43,860	48,849
Economic Consulting	16,588	13,878	50,542	40,023
Total revenues before reimbursements	$ 153,222	$ 159,153	$ 461,709	$ 483,697
Total revenues:				
Dispute and Investigative Services	$ 71,279	$ 76,010	$ 203,040	$ 230,264
Business Consulting Services	68,894	65,450	206,900	202,359
International Consulting	16,443	21,279	55,318	57,832
Economic Consulting	18,231	14,624	55,462	42,826
Total revenues	$ 174,847	$ 177,363	$ 520,720	$ 533,281
Segment operating profit:				
Dispute and Investigative Services	$ 26,738	$ 30,025	$ 73,731	$ 86,628
Business Consulting Services	19,817	21,763	61,982	65,547
International Consulting	1,680	4,793	9,083	13,375
Economic Consulting	5,585	5,239	18,154	14,771
Total combined segment operating profit	53,820	61,820	162,950	180,321
Segment operating profit reconciliation to income before income tax expense:				
Unallocated:				
General and administrative expenses	30,789	32,500	90,338	100,906
Depreciation expense	3,528	4,352	10,882	13,312
Amortization expense	3,168	3,055	8,926	10,067
Long-term compensation expense related to consulting personnel (including share-based compensation)	2,966	3,212	7,967	9,403
Other operating costs (benefit)	(900)	985	(900)	6,505
Operating income	14,269	17,716	45,737	40,128
Other expense, net	1,179	3,585	7,602	10,489

Income before income tax expense	$ 13,090	$ 14,131	$ 38,135	$ 29,639

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):

	September 30, 2010	December 31, 2009
Dispute and Investigative Services	$ 348,984	$ 304,744
Business Consulting Services	217,576	212,975
International Consulting	79,479	86,195
Economic Consulting	85,954	75,147
Unallocated assets	104,693	141,184
Total assets	$ 836,686	$ 820,245

Note 4. Goodwill and Intangible Assets

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

	September 30, 2010	December 31, 2009
Goodwill	$ 531,180	$ 490,526
Less accumulated amortization	(5,425)	(5,425)
Goodwill, net	525,755	485,101
Intangible assets:		
Customer lists and relationships	67,182	63,697
Non-compete agreements	20,660	19,701
Other	21,304	19,589
Intangible assets, at cost	109,146	102,987
Less accumulated amortization	(81,789)	(72,635)
Intangible assets, net	27,357	30,352
Goodwill and intangible assets, net	$ 553,112	$ 515,453

During the second quarter of 2010, we performed our annual test of goodwill based on balances as of May 31, 2010. The impairment test was completed based on our six operating segments which are also considered to be our reporting units as defined by the accounting standard for goodwill and other intangible assets. 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. There was no indication of impairment based on our analysis.

As of our May 31, 2010 analysis, the excess of estimated fair value over net asset carrying value of our reporting units comprising our Business Consulting Segment (Healthcare, Energy and Other Business Consulting Services), our International Consulting reporting unit and our Disputes and Investigative reporting unit were all in excess of between 30% to 40% of the estimated fair value. The excess of estimated fair value over the net asset carrying value of the Economic Consulting reporting unit was approximately 15% of estimated fair value. Our new reporting units are relatively smaller in size than the prior reporting units, which may result in more volatility in future impairment tests. Further, the estimated fair value of the International Consulting and Economic Consulting reporting units may be more volatile due to the reporting units higher expected earnings growth rates. Also, given the International

Consulting reporting unit s involvement in emerging markets and exposure to multiple markets outside the United States, 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 depends on various factors including the success of such acquisitions. The key assumptions used in our May 31, 2010 analysis included profit margin improvement to be generally consistent with our longer term historical performance, revenue growth rates ahead of our peer group 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.

On a periodic basis, we are required to consider whether it is more likely than not that 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, adverse 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.

During the third quarter of 2010, our average stock price was slightly above our book value. As noted above, our stock price falling below our book value for a substantial period of time may be an event or condition that could indicate a goodwill impairment. Additionally, the financial results of our International Consulting reporting unit for the three months ended September 30, 2010 were lower than the prior year and our expectations. Although we continue to expect that our International Consulting reporting unit will improve margins and grow from its current base, our ability to achieve these expectations depends on many factors, which may be beyond our control, including market conditions. In addition, during our last annual impairment test, the excess of estimated fair value over the net asset carrying value of our Economic Consulting reporting unit was generally lower than the other reporting units. We continue to expect growth from the Economic Consulting reporting unit; however, the timing and achievement of this growth will be subject to various factors, including market conditions and our ability to leverage our recent investments. As of September 30, 2010, we do not believe there was an indication of impairment related to our goodwill balances, however, we continue to monitor the factors noted above.

We review our intangible asset values on a periodic basis. We had $27.4 million in intangible assets, net of accumulated amortization, as of September 30, 2010. Of the $27.4 million balance, $20.9 million related to customer lists and relationships, $2.9 million related to non-compete agreements and $3.6 million related to other intangible assets. As of September 30, 2010, the weighted average remaining life for customer lists and relationships, non-compete agreements and other intangible assets was 3.3 years, 2.5 years and 2.9 years, respectively. We have reviewed the estimated period of consumption for our intangible assets. As of September 30, 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.

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 the 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 nine months ended September 30,	
	2010	**2009**
Beginning of period Goodwill, net	$ 485,101	$ 463,058
Goodwill acquired	40,958	1,842
Adjustments to goodwill	(133)	
Foreign currency translation goodwill	(171)	9,234
End of period Goodwill, net	$ 525,755	$ 474,134
Beginning of period Intangible assets, net	$ 30,352	$ 38,108
Intangible assets acquired	6,082	261
Adjustments to intangible assets		(270)

Foreign currency translation intangible assets, net	(151)	2,483
Less amortization expense	(8,926)	(10,067