

NAVIGANT CONSULTING INC  
Form 10-Q  
April 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 March 31, 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 April 25, 2012, 51,844,583 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 THREE MONTHS ENDED MARCH 31, 2012**

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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)

|   | March 31,<br>2012<br>(unaudited) | December 31,<br>2011 |
|---|----------------------------------|----------------------|
| <b>ASSETS</b>                               |                                  |                      |
| Current assets:                             |                                  |                      |
| Cash and cash equivalents                   | \$ 74                            | \$ 2,969             |
| Accounts receivable, net                    | 196,271                          | 179,041              |
| Prepaid expenses and other current assets   | 25,789                           | 22,766               |
| Deferred income tax assets                  | 13,708                           | 16,229               |
| <b>Total current assets</b>                 | <b>235,842</b>                   | <b>221,005</b>       |
| Non-current assets:                         |                                  |                      |
| Property and equipment, net                 | 43,411                           | 41,138               |
| Intangible assets, net                      | 15,262                           | 16,825               |
| Goodwill                                    | 573,352                          | 570,280              |
| Other assets                                | 22,867                           | 25,953               |
| <b>Total assets</b>                         | <b>\$ 890,734</b>                | <b>\$ 875,201</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                  |                      |
| Current liabilities:                        |                                  |                      |
| Accounts payable                            | \$ 14,922                        | \$ 16,261            |
| Accrued liabilities                         | 9,583                            | 8,432                |
| Accrued compensation-related costs          | 44,738                           | 95,451               |
| Income tax payable                          | 3,092                            | 3,558                |
| Other current liabilities                   | 28,488                           | 32,622               |
| <b>Total current liabilities</b>            | <b>100,823</b>                   | <b>156,324</b>       |
| Non-current liabilities:                    |                                  |                      |
| Deferred income tax liabilities             | 55,891                           | 52,964               |
| Other non-current liabilities               | 19,750                           | 20,445               |
| Bank debt non-current                       | 187,030                          | 131,790              |
| <b>Total non-current liabilities</b>        | <b>262,671</b>                   | <b>205,199</b>       |
| <b>Total liabilities</b>                    | <b>363,494</b>                   | <b>361,523</b>       |
| Stockholders' equity:                       |                                  |                      |
| Common stock                                | 62                               | 61                   |
| Additional paid-in capital                  | 571,044                          | 567,627              |
| Treasury stock                              | (202,445)                        | (197,602)            |
| Retained earnings                           | 168,015                          | 156,373              |

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|  |            |            |
|--|------------|------------|
| Accumulated other comprehensive loss       | (9,436)    | (12,781)   |
| Total stockholders' equity                 | 527,240    | 513,678    |
| Total liabilities and stockholders' equity | \$ 890,734 | \$ 875,201 |

See accompanying notes to the unaudited consolidated financial statements.

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**NAVIGANT CONSULTING, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

|   | For the three months ended<br>March 31, |            |
|---|---|------------|
|   | 2012                                    | 2011       |
| Revenues before reimbursements  | \$ 186,380                              | \$ 169,604 |
| Reimbursements  | 20,241                                  | 19,195     |
| Total revenues  | 206,621                                 | 188,799    |
| Cost of services before reimbursable expenses                         | 123,960                                 | 114,815    |
| Reimbursable expenses   | 20,241                                  | 19,195     |
| Total costs of services   | 144,201                                 | 134,010    |
| General and administrative expenses                                   | 35,557                                  | 32,409     |
| Depreciation expense  | 3,516                                   | 3,377      |
| Amortization expense  | 1,725                                   | 2,301      |
| Operating income  | 21,622                                  | 16,702     |
| Interest expense  | 1,463                                   | 1,840      |
| Interest income   | (238)                                   | (367)      |
| Other expense (income), net   | 105                                     | (36)       |
| Income before income tax expense                                      | 20,292                                  | 15,265     |
| Income tax expense  | 8,650                                   | 6,487      |
| Net income  | \$ 11,642                               | \$ 8,778   |
| Basic net income per share  | \$ 0.23                                 | \$ 0.17    |
| Shares used in computing net income per basic share                   | 51,032                                  | 50,176     |
| Diluted net income per share  | \$ 0.22                                 | \$ 0.17    |
| Shares used in computing net income per diluted share                 | 51,797                                  | 51,034     |
| Other comprehensive income, net of tax                                |   |            |
| Net income  | \$ 11,642                               | \$ 8,778   |
| Foreign currency translation adjustment                               | 3,272                                   | 3,593      |
| Unrealized net gain on interest rate derivatives, net of income taxes | 73                                      | 132        |
| Comprehensive income  | \$ 14,987                               | \$ 12,503  |

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)**

|  | <b>For the three months ended<br/>March 31,</b> |                 |
|--|---|-----------------|
|  | <b>2012</b>                                     | <b>2011</b>     |
| <b>Cash flows from operating activities:</b>   |   |                 |
| Net income   | \$ 11,642                                       | \$ 8,778        |
| <b>Adjustments to reconcile net income to net cash used in operating activities:</b> |   |                 |
| Depreciation expense   | 3,516   | 3,377           |
| Amortization expense   | 1,725   | 2,301           |
| Share-based compensation expense   | 2,331   | 1,700           |
| Accretion of interest expense  | 140   | 308             |
| Deferred income taxes  | 4,775   | 7,156           |
| Allowance for doubtful accounts receivable   | 1,160   | 2,025           |
| <b>Changes in assets and liabilities:</b>  |   |                 |
| Accounts receivable  | (17,730)  | (8,373)         |
| Prepaid expenses and other assets  | 1,395   | (4,884)         |
| Accounts payable   | (1,361)   | 816             |
| Accrued liabilities  | 1,098   | (191)           |
| Accrued compensation-related costs   | (50,826)  | (31,263)        |
| Income tax payable   | (448)   | (2,370)         |
| Other liabilities  | (507)   | (2,800)         |
| <b>Net cash used in operating activities</b>   | <b>(43,090)</b>                                 | <b>(23,420)</b> |
| <b>Cash flows from investing activities:</b>   |   |                 |
| Purchases of property and equipment  | (7,826)   | (1,724)         |
| Payments of acquisition liabilities  | (750)   | (217)           |
| Other, net   | (612)   | (225)           |
| <b>Net cash used in investing activities</b>   | <b>(9,188)</b>                                  | <b>(2,166)</b>  |
| <b>Cash flows from financing activities:</b>   |   |                 |
| Issuances of common stock  | 1,066   | 640             |
| Repurchase of common stock   | (3,032)   |                 |
| Payments of contingent acquisition liabilities                                       | (2,435)   |                 |
| Net borrowings from banks  | 54,825  | 29,707          |
| Payments of term loan  |   | (4,599)         |
| Other, net   | (1,111)   | (676)           |
| <b>Net cash provided by financing activities</b>                                     | <b>49,313</b>                                   | <b>25,072</b>   |
| Effect of exchange rate changes on cash and cash equivalents                         | 70  | 165             |
| <b>Net decrease in cash and cash equivalents</b>                                     | <b>(2,895)</b>                                  | <b>(349)</b>    |
| Cash and cash equivalents at beginning of the period                                 | 2,969   | 1,981           |
| <b>Cash and cash equivalents at end of the period</b>                                | <b>\$ 74</b>                                    | <b>\$ 1,632</b> |

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 Business Consulting Services, Dispute and Investigative Services, Economic Consulting, and International Consulting, which are discussed below in 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 three months ended March 31, 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 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 issued guidance which requires public entities to increase the prominence of other comprehensive income in financial statements. Under 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 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 Dispute and Investigative Services 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. Fair value of the contingent consideration on the date of purchase recorded in other current and non-current liabilities was estimated to be \$2.6 million. During the three months ended March 31, 2012, we paid \$1.0 million of the contingent consideration and have a remaining fair value balance of \$1.6 million. 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 International Consulting segment and the other was integrated into our Business Consulting Services segment.



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The following table summarizes certain supplemental unaudited pro forma financial information which was prepared as if the 2011 acquisitions noted above had occurred as of 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 which may occur in the future.

|                            | <b>For the three months ended</b> |             |
|----------------------------|-----------------------------------|-------------|
|                            | <b>March 31,</b>                  |             |
|                            | <b>2012</b>                       | <b>2011</b> |
| Total revenues             | \$ 206,621                        | \$ 192,356  |
| Net income                 | \$ 11,642                         | \$ 9,213    |
| Basic net income per share |                                   |             |