NAVIGANT CONSULTING INC
Form 10-Q
May 02, 2018

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, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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.)

150 North Riverside Plaza, Suite 2100, 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES NO

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 30, 2018, 45,187,592 shares of the registrant's common stock, par value $.001 per share, were outstanding.

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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,” “may,” “could,” “intend,” “estimate,” “expect,” “continue,” “plan,” “outlook” and similar expre
These statements are based upon management’s current expectations and speak only as of the date of this quarterly statement. The Company cautions readers that there may be events in the future that the Company is 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, without limitation: the execution of the Company’s long-term growth objectives and margin improvement initiatives; risks inherent in international operations, including foreign currency fluctuations; ability to make acquisitions and divestitures and complete such acquisitions and divestitures in the time anticipated; pace, timing and integration of acquisitions; operational risks associated with new or expanded service areas, including business process management services; impairments; changes in accounting standards or tax rates, laws or regulations; management of professional staff, including dependence on key personnel, recruiting, retention, attrition and the ability to successfully integrate new consultants into the Company’s practices; utilization rates; conflicts of interest; potential loss of clients or large engagements and the Company’s ability to attract new business; brand equity; competition; accurate pricing of engagements, particularly fixed fee and multi-year engagements; clients’ financial condition and their ability to make payments to the Company; risks inherent with litigation; higher risk client assignments; government contracting; professional liability; information security; the adequacy of our business, financial and information systems and technology; maintenance of effective internal controls; potential legislative and regulatory changes; continued and sufficient access to capital; compliance with covenants in our credit agreement; interest rate risk; and market and general economic and political conditions. Further information on these and other potential factors that could affect the Company’s business and financial condition and the results of operations are included under the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, and elsewhere in the Company’s filings with the Securities and Exchange Commission (“SEC”), which are available on the SEC’s website or at investors.navigant.com. The Company cannot guarantee any future results, levels of activity, performance or achievement and undertakes no obligation to update any of its forward-looking statements.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.
NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,646	$ 8,449
Accounts receivable, net and contract assets	288,744	267,841
Prepaid expenses and other current assets	33,616	32,921
Total current assets	329,006	309,211
Non-current assets:		
Property and equipment, net	87,921	89,169
Intangible assets, net	19,247	21,053
Goodwill	638,953	637,287
Other assets	23,210	23,544
Total assets	$ 1,098,337	$ 1,080,264
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 10,345	$ 12,398
Accrued liabilities	15,923	13,895
Accrued compensation-related costs	60,567	96,773
Income tax payable	7,171	4,720
Other current liabilities	32,633	38,895
Total current liabilities	126,639	166,681
Non-current liabilities:		
Deferred income tax liabilities	62,665	61,131
Other non-current liabilities	32,000	32,174
Bank debt non-current	184,327	132,944
Total non-current liabilities	278,992	226,249
Total liabilities	405,631	392,930
Stockholders' equity:		
Common stock	58	58
Additional paid-in capital	662,924	659,825
Treasury stock	(235,723)	(224,366)
Retained earnings	282,999	270,995
Accumulated other comprehensive loss	(17,552)	(19,178)
Total stockholders' equity	692,706	687,334
Total liabilities and stockholders' equity	$ 1,098,337	$ 1,080,264

See accompanying notes to unaudited consolidated financial statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	For the three months ended March 31, 2018	2017
Revenues before reimbursements	$ 243,879	$ 236,211
Reimbursements	20,641	21,626
Total revenues	264,520	257,837
Cost of services before reimbursable expenses	171,406	165,052
Reimbursable expenses	20,641	21,626
Total cost of services	192,047	186,678
General and administrative expenses	44,362	41,484
Depreciation expense	6,845	7,473
Amortization expense	1,856	2,319
Other operating costs:		
Contingent acquisition liability adjustments, net	-	1,199
Other costs	983	107
Operating income	18,427	18,577
Interest expense	1,316	1,069
Interest income	(119)	(31)
Other expense (income), net	390	(217)
Income before income tax expense	16,840	17,756
Income tax expense	4,987	6,660
Net income	$ 11,853	$ 11,096
Basic net income per share	$ 0.26	$ 0.24
Shares used in computing basic per share data	45,120	46,932
Diluted net income per share	$ 0.25	$ 0.23
Shares used in computing diluted per share data	46,834	48,969
Net income	$ 11,853	$ 11,096
Other comprehensive income, net of tax		
Unrealized net gain, foreign currency translation	1,369	830
Unrealized net gain on interest rate derivatives	250	11
Reclassification adjustment on interest rate derivatives included in interest expense and income tax expense	7	20
Other comprehensive gain, net of tax	1,626	861
Total comprehensive income, net of tax	$ 13,479	$ 11,957

See accompanying notes to unaudited consolidated financial statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Common Stock Shares	Treasury Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock Cost	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stock-holders' Equity
Balance at December 31, 2017	58,047	(12,661)	$ 58	$ 659,825	$ (224,366)	$ (19,178)	$ 270,995	$ 687,334
Cumulative-effect adjustment resulting from the adoption of ASU 2014-09 (Note 3)	-	-	-	-	-	-	151	151
Comprehensive income	-	-	-	-	-	1,626	11,853	13,479
Issuances of common stock	89	-	-	1,238	-	-	-	1,238
Vesting of restricted stock units, net of forfeitures and tax withholdings	94	-	-	(1,516)	-	-	-	(1,516)
Share-based compensation expense	-	-	-	3,377	-	-	-	3,377
Repurchases of common stock	-	(569)	-	-	(11,357)	-	-	(11,357)
Balance at March 31, 2018	58,230	(13,230)	$ 58	$ 662,924	$ (235,723)	$ (17,552)	$ 282,999	$ 692,706

See accompanying notes to unaudited consolidated financial statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the three months ended March 31, 2018	2017
Cash flows from operating activities:		
Net income	$ 11,853	$ 11,096
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation expense	6,845	7,473
Amortization expense	1,856	2,319
Share-based compensation expense	3,377	3,022
Deferred income taxes	968	1,339
Allowance for doubtful accounts receivable	3,130	4
Contingent acquisition liability adjustments, net	-	1,199
Other, net	1,007	651
Changes in assets and liabilities (net of acquisitions):		
Accounts receivable, net and contract assets	(23,615)	(4,279)
Prepaid expenses and other assets	(716)	(1,197)
Accounts payable	(2,100)	(81)
Accrued liabilities	2,200	584
Accrued compensation-related costs	(36,458)	(49,256)
Income taxes payable	2,926	4,353
Other liabilities	(6,120)	(188)
Net cash used in operating activities	(34,847)	(22,961)
Cash flows from investing activities:		
Purchases of property and equipment	(5,750)	(13,789)
Other, net	-	(116)
Net cash used in investing activities	(5,750)	(13,905)
Cash flows from financing activities:		
Issuances of common stock	1,238	1,914
Repurchases of common stock	(11,357)	(4,961)
Repayments to banks	(79,144)	(150,800)
Borrowings from banks	129,677	193,802
Payments of debt issuance costs	-	(1,166)
Other, net	(1,596)	(1,327)
Net cash provided by financing activities	38,818	37,462
Effect of exchange rate changes on cash and cash equivalents	(24)	245
Net (decrease) increase in cash and cash equivalents	(1,803)	841
Cash and cash equivalents at beginning of the period	8,449	8,291
Cash and cash equivalents at end of the period	$ 6,646	$ 9,132

Supplemental Unaudited Consolidated Cash Flow Information

(In thousands)

	For the three months ended March 31,	
	2018	2017
Interest paid	$ 1,014	$ 1,172
Income taxes paid, net of refunds	$ 891	$ 918

See accompanying notes to unaudited consolidated financial statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Navigant Consulting, Inc. (“Navigant,” “we,” “us,” or “our”) (NYSE: NCI) is a specialized, global professional services firm that helps clients take control of their future. Navigant’s professionals apply deep industry knowledge, substantive technical expertise, and an enterprising approach to help clients build, manage, and/or protect their business interests. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, Navigant primarily serves clients in the healthcare, energy, and financial services industries. Across a range of advisory, consulting, outsourcing, and technology/analytics services, we believe our practitioners bring sharp insight that pinpoints opportunities and delivers powerful results.

The accompanying unaudited 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 disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The information contained 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, 2018 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2018.

These unaudited consolidated 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, 2017 included in our Annual Report on Form 10-K filed with the SEC on February 23, 2018 (“2017 Form 10-K”).

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 the filing of this report.

Certain prior year results have been reclassified to reflect current year presentation.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

On January 1, 2018 we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (Topic 606). For updates to our revenue recognition policy see Note 3 – Revenue Recognition. Other than Topic 606, there have been no material changes to our significant accounting policies and estimates from the information provided in Part II, Item 8, “Financial Statements and Supplementary Data” in our 2017 Form 10-K.

On January 1, 2018, we adopted ASU 2016-15, Statement of Cash Flow (Topic 230). This update is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The update provides new guidance regarding the classification of debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies including bank-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitized transactions, and separately identifiable cash flows and application of the predominance principle. We determined that the manner in which we classify our contingent acquisition liability payments in the consolidated statement of cash flows will change. Based on our evaluation, adoption of this standard requires a reclassification of a portion of the payments previously reported as financing activities for comparative periods in the statement of cash flows within our consolidated financial statements issued for periods beginning on or after January 1, 2018. Under this guidance, portions of these payments have been reclassified from financing activities to operating activities. We applied this change retrospectively, and it did not have a material impact on our consolidated financial statements.

On January 1, 2018, we adopted ASU 2017-01, Business Combinations: Clarifying the Definition of a Business (Topic 805), which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We applied this change prospectively, and it did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update amends the requirements for assets and liabilities recognized for all leases longer than twelve months. Lessees will be required to recognize a lease liability measured on a discounted basis, which is the lessee's obligation to make lease payments arising from the lease, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. This standard will be effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2018. Early adoption of the standard is permitted. The standard will require a modified retrospective approach for leases existing at or entered into after the beginning of the earliest comparative period presented. We are currently evaluating the potential impact of our adoption of this guidance on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220). This update addresses the effect of the change in the U.S. federal corporate tax rate due to the enactment of the December 22, 2017 Tax Cuts and Jobs Act ("Tax Reform") on items within accumulated other comprehensive income (loss). ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial statements.

3. REVENUE RECOGNITION

Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted Topic 606 and all the related amendments ("new revenue standard") to all contracts with customers not completed as of the adoption date using the cumulative catch-up transition (modified retrospective) method. Results as of January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. As a result of the adoption, we recorded a net increase to opening retained earnings of $0.2 million, net of tax, with the impact primarily relating to certain contracts that include event-based variable consideration. Previously, we recognized event-based variable fees when contractual milestones or obligations were met, however, Topic 606 requires us to estimate and recognize the revenue from certain event-based variable fees over the period of performance to the extent that it is probable that a significant reversal will not occur.

Effect of the Adoption of Topic 606

For the three months ended March 31, 2018 we recorded $2.8 million in additional revenue related to estimated variable consideration, which would not have been recognized under the prior revenue recognition guidance and have been included in accounts receivable, net and contract assets. Prior year results are presented in accordance with historical accounting. See our 2017 Form 10-K for our historical accounting policy.

Significant Accounting Policy

We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods and services.

The majority of our revenues are generated from providing professional services under the following types of arrangements: time and material, fixed-fee, units of production and event or performance-based.

For our time and material arrangements, the amounts charged correspond directly to the value our clients receive. These arrangements qualify for the right to invoice practical expedient which allows revenue to be recognized based on the number of hours worked by our Client-Service FTE at the contracted bill rates. In some cases, our time and materials engagements are subject to a maximum fee amount not to be exceeded, in which case we periodically evaluate the progress of work performed to ensure that the maximum amount billable to the client is not expected to be exceeded. Similarly, our units of production arrangements where the fee is unit/output priced at a per unit value qualifies for the right to invoice practical expedient. As such, revenue for units of production is recognized based on measures such as the number of items processed at agreed-upon rates.

With our fixed-fee arrangements, we are contracted to complete a pre-determined set of professional services for a pre-determined fee (transaction price). However, the fee and engagement scope can be adjusted based on a mutual agreement between us and the client. In many cases, the recording of fixed revenue amounts requires us to make an estimate of the total amount of work to be performed, and revenues are then recognized as efforts are expended based on hours worked unless another method such as output or straight-line is more representative of value transferred to the client.

We also have certain arrangements in which the fees are dependent on the completion of contractually defined outcomes. In many cases, this fee is earned in addition to an hourly or fixed-fee. These fees are rewarded when certain contractual milestones or outcomes are met. Contractually defined outcomes may be event-based or performance-based (for example based on obtaining a key performance indicator). For certain of these arrangements, the variable consideration is estimated at the expected value and subject to constraint based on risks specific to the contract. The estimate is evaluated in each reporting period and included in the total transaction price to the extent it is probable that a significant reversal of revenue will not occur. Transaction price is then recognized into revenue based upon efforts expended based on hours worked unless another method is more representative of revenue earned. In some cases, the estimation of the variable fees is complex and subject to many variables and may require significant judgement.

The majority of our contracts have a single performance obligation. However, when certain arrangements have more than one performance obligation that are distinct from one another the transaction price is allocated to the separate performance obligations based on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing or margins. Generally, we consider each of consulting/advisory services, transaction advisory or software based fees as one distinct performance obligation.

Reimbursable expenses for our engagements include travel, out-of-pocket and independent contractor costs. Such expenses are passed through to clients as contractually allowed. Reimbursable expenses are considered a variable portion of the transaction price and are recognized into revenue consistent with the measure of progress of the respective performance obligation.

Contract Assets and Liabilities

We define contract assets as revenues recognized for fixed-fee, event-based or performance-based arrangements for which we are not contractually able to bill. These contract assets are included in accounts receivable, net and contract assets within the consolidated balance sheets. As of March 31, 2018, and December 31, 2017 contract assets were not material. In most cases, our standard fixed fee contracts allow for monthly billing.

We define contract liabilities as advance payments or billings to our customers for services that have not yet been performed or earned and retainers. These liabilities are recorded within other current liabilities and are recognized as services are provided. Any taxes assessed on revenues relating to services provided to our clients are recorded on a net basis. As of March 31, 2018 and December 31, 2017 contract liabilities was $22.4 million and $28.0 million, respectively. During the three months ended March 31, 2018 $16.0 million was recognized into revenue from the opening balance. The remaining change related to amounts billed or payments received for work not yet performed.

Performance Obligations

For disclosure purposes, we apply the practical expedient to exclude the value of unsatisfied performance obligations for contracts with an enforceable duration of one year or less. We also apply the practical expedient to exclude those amounts for contracts in which we apply the right to invoice. The majority of our contracts include termination for convenience clauses which generally require 30 days notice with no penalty. The notice period required determines the contract duration resulting in very few agreements which are contractually enforceable beyond one year. As such the total amount of unsatisfied performance obligations beyond one year is not significant. As of March 31, 2018 we had approximately $38.4 million of remaining performance obligations which are expected to be satisfied beyond one year.

4. SEGMENT INFORMATION

Our business is assessed and resources are allocated based on the following four reportable segments:

- The Healthcare segment provides consulting services and business process management services. Clients of this segment include healthcare providers, payers and life sciences companies. We help clients respond to market legislative changes such as the shift to an outcomes and value-based reimbursements model, ongoing industry consolidation and reorganization, Medicaid expansion, the implementation of a new electronic health records system and product planning and commercialization expertise.
- The Energy segment provides advisory services to utilities, governmental agencies, manufacturers and investors. We provide our clients with advisory solutions in business strategy and planning, distributed energy resources and renewables, energy efficiency and demand response, and grid modernization. In addition, we provide a broad array of benchmarking and research services.

- The Financial Services Advisory and Compliance segment provides strategic, operational, valuation, risk management, investigative and compliance advisory services to clients primarily in the highly-regulated financial services industry, including major financial and insurance institutions. This segment also provides anti-corruption solutions and anti-money laundering consulting, litigation support tax compliance and valuation services to clients in a broad variety of industries.
- The Disputes, Forensics and Legal Technology segment's professional services include accounting, regulatory, construction and computer forensic expertise, as well as valuation and economic analysis. In addition to these capabilities, our professionals use technological tools to perform eDiscovery services and to deliver custom technology, data analytic and cyber-security solutions. The clients of this segment principally include companies along with their in-house counsel and law firms, as well as accounting firms, corporate boards and government agencies.

During the three months ended March 31, 2018, we moved our life sciences regulatory and compliance related business from the Disputes, Forensics and Legal Technology reporting segment into the Healthcare reporting segment. The change better aligns this group with our life sciences team within Healthcare as they have comparable client types and address similar business issues and industry dynamics. Prior year results have been adjusted to conform to current year presentation.

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 cost of services excluding long-term compensation expense attributable to client-service employees. Long-term compensation expense attributable to client-service employees includes share-based compensation expense and compensation expense attributed to certain 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 reporting segments been stand-alone businesses.

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

	For the three months ended March 31, 2018	2017
Revenues before reimbursements:		
Healthcare	$ 90,149	$ 94,010
Energy	33,704	32,498
Financial Services Advisory and Compliance	41,386	32,907
Disputes, Forensics and Legal Technology	78,640	76,796
Total revenues before reimbursements	$ 243,879	$ 236,211
Total revenues:		
Healthcare	$ 98,712	$ 103,016
Energy	37,637	37,722
Financial Services Advisory and Compliance	45,571	36,855
Disputes, Forensics and Legal Technology	82,600	80,244
Total revenues	$ 264,520	$ 257,837
Segment operating profit:		
Healthcare	$ 20,390	$ 28,472
Energy	10,728	8,879
Financial Services Advisory and Compliance	16,031	11,614
Disputes, Forensics and Legal Technology	27,908	25,480
Total segment operating profit	75,057	74,445
Segment reconciliation to income before income tax expense:		
Reconciling items:		
General and administrative expenses	44,362	41,484
Depreciation expense	6,845	7,473
Amortization expense	1,856	2,319
Other operating costs, net	983	1,306
Long-term compensation expense attributable to client-service employees (including share-based compensation expense)	2,584	3,286
Operating income	18,427	18,577
Interest and other expense, net	1,587	821
Income before income tax expense	$ 16,840	$ 17,756

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

	March 31, 2018	December 31, 2017
Healthcare	$416,227	$419,894
Energy	120,711	115,478
Financial Services Advisory and Compliance	102,775	95,534
Disputes, Forensics and Legal Technology	334,924	321,844
Unallocated assets	123,700	127,514
Total assets	$1,098,337	$1,080,264

5. GOODWILL AND INTANGIBLE ASSETS, NET

During the three months ended March 31, 2018, we moved our life sciences regulatory and compliance related business from our Disputes, Forensics and Legal Technology into the Healthcare reporting segment to align with similar clients and industry (see Note 4 – Segment Information). As a result, a portion of the Disputes, Forensics and Legal Technology reporting unit was reclassed into Healthcare. We used the relative fair value approach based on an evaluation of expected future discounted cash flows to determine the reclassification amount. The changes made to the goodwill balances of our reporting units, including the reclassification for the three months ended March 31, 2018 and the year ended December 31, 2017, were as follows (shown in thousands):

	Healthcare	Energy	Financial Services Advisory and Compliance	Disputes, Forensics and Legal Technology	Total Company
Gross goodwill at December 31, 2017	$ 278,130	$ 80,109	$ 54,462	$ 352,056	$ 764,757
Segment reclassification	15,934	-	-	(15,934)	-
Gross goodwill at December 31, 2017 adjusted	$ 294,064	$ 80,109	$ 54,462	$ 336,122	$ 764,757
Adjustments	(50)	200	(6)	(26)	118
Foreign currency translation	(50)	274	319	1,005	1,548
Gross goodwill at March 31, 2018	293,964	80,583	54,775	337,101	766,423
Accumulated goodwill impairment	-	-	-	(122,045)	(122,045)
Accumulated amortization	-	-	-	(5,425)	(5,425)
Net goodwill at March 31, 2018	$ 293,964	$ 80,583	$ 54,775	$ 209,631	$ 638,953

	Healthcare	Energy	Financial Services Advisory and Compliance	Disputes, Forensics and Legal Technology	Total Company
Gross goodwill at December 31, 2016	$ 272,032	$ 77,924	$ 53,784	$ 348,757	$ 752,497
Segment reclassification	15,934	-	-	(15,934)	-
Gross goodwill at December 31, 2016 adjusted	$ 287,966	$ 77,924	$ 53,784	$ 332,823	$ 752,497
Acquisitions	5,837	-	-	-	5,837
Adjustments	9	1,231	(35)	(154)	1,051
Foreign currency translation	252	954	713	3,453	5,372
Gross goodwill at December 31, 2017 adjusted	294,064	80,109	54,462	336,122	764,757
Accumulated goodwill impairment	-	-	-	(122,045)	(122,045)
Accumulated amortization	-	-	-	(5,425)	(5,425)
Net goodwill at December 31, 2017	$ 294,064	$ 80,109	$ 54,462	$ 208,652	$ 637,287

We performed our annual goodwill impairment test as of May 31, 2017. The key assumptions included: internal projections completed during our first quarter 2017 forecasting process; profit margin improvement generally consistent with our longer-term historical performance; assumptions regarding contingent revenue; revenue growth consistent with our longer term historical performance also considering our near term investment plans and growth objectives; discount rates based on comparable discount rates for our peer group; revenue and EBITDA multiples comparable to multiples for our peer group; Navigant-specific risk considerations; control premium; and cost of capital based on our historical experience.

Based on our assumptions, at that time, the estimated fair value exceeded the net asset carrying value for each of our reporting units as of May 31, 2017. Accordingly, there was no indication of impairment of our goodwill for any of our reporting units. As of May 31, 2017, the estimated fair value of our Healthcare, Energy, Financial Services Advisory and Compliance, and Disputes, Forensics and Legal Technology reporting units exceeded the fair value of invested capital by 30%, 38%, 70%, and 21%, respectively.

We have reviewed our most recent financial projections and considered the segment change as of March 31, 2018 and determined that there was no indication of impairment. We will continue to monitor the factors and key assumptions used in determining the fair value of each of our reporting units. There can be no assurance that goodwill or intangible assets will not be impaired in the future. We will perform our next annual goodwill impairment test as of May 31, 2018.

Intangible assets consisted of (in thousands):

	March 31, 2018	December 31, 2017
Intangible assets:		
Customer lists and relationships	$110,387	$109,624
Non-compete agreements	24,292	24,217
Other	28,904	28,985
Intangible assets, at cost	163,583	162,826
Less: accumulated amortization	(144,336)	(141,773)
Intangible assets, net	$19,247	$21,053

Our intangible assets have estimated remaining useful lives ranging up to seven years which approximate the estimated periods of consumption. We will amortize the remaining net book values of intangible assets over their remaining useful lives. At March 31, 2018, our intangible assets categories were as follows (in thousands, except year data):

Category	Weighted Average Remaining Years	Amount
Customer lists and relationships, net	4.6	$16,497
Non-compete agreements, net	2.9	1,797
Other intangible assets, net	2.8	953
Total intangible assets, net	4.3	$19,247

Total amortization expense was $1.9 million and $2.3 million for the three months ended March 31, 2018 and 2017, respectively. The estimated annual aggregate amortization expense to be recorded in the next five years related to intangible assets at March 31, 2018 is as follows (in thousands):

Year Ending December 31,	Amount
2018 (includes January - March)	$6,773
2019	4,621
2020	3,555
2021	3,705
2022	683
2023	1,081

6. NET INCOME PER SHARE (EPS)

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

	For the three months ended March 31,	
	2018	2017
Basic shares	45,120	46,932
Employee stock options	153	247
Restricted stock units	1,544	1,677
Contingently issuable shares	17	113
Diluted shares	46,834	48,969
Antidilutive shares (1)	33	3

(1) Stock options with exercise prices greater than the average market price of our common stock during the respective time periods 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.

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

The amounts attributable to each category of share-based compensation expense were as follows (in thousands):

	For the three months ended March 31,	
	2018	2017
Amortization of restricted stock unit awards	$3,206	$2,656
Amortization of stock option awards	34	219
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	137	147
Total share-based compensation expense	$3,377	$3,022

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

	For the three months ended March 31,	
	2018	2017
Cost of services before reimbursable expenses	$1,228	$1,617
General and administrative expenses	2,149	1,405
Total share-based compensation expense	$3,377	$3,022

Share-based compensation expense attributable to client-service employees 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.

At March 31, 2018, we had $12.8 million of total compensation costs related to unvested share-based awards 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. During the three months ended March 31, 2018, we granted an aggregate of 212,646 share-based awards, consisting of restricted stock units with an aggregate fair value of $4.3 million at the time of grant. These grants include certain awards that vest based on relative achievement of pre-established performance criteria.

8. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION
Accounts Receivable, Net and Contract Assets

The components of accounts receivable, net and contract assets, were as follows (in thousands):

	March 31, 2018	December 31, 2017
Billed amounts	$ 200,785	$ 194,694
Engagements in process	119,537	102,026
Allowance for uncollectible billed amounts	(19,474)	(18,274)
Allowance for uncollectible engagements in process	(12,104)	