

NAVIGANT CONSULTING INC
Form 10-K
February 17, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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, 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 website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Smaller reporting company

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(Do not check if a 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 February 14, 2012, 52,029,167 million shares of the registrant's common stock, par value \$0.001 per share (Common Stock), were outstanding. The aggregate market value of shares of the Common Stock held by non-affiliates, based upon the closing sale price per share of the Common Stock on the New York Stock Exchange on June 30, 2011, was approximately \$536.5 million.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information from the registrant's definitive Proxy Statement for its Annual Meeting of Shareholders, scheduled to be held on May 22, 2012, is incorporated by reference into Part III of this report. The registrant intends to file the Proxy Statement with the Securities and Exchange Commission within 120 days of December 31, 2011.

Table of Contents

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	3
Item 1A. <u>Risk Factors</u>	8
Item 1B. <u>Unresolved Staff Comments</u>	14
Item 2. <u>Properties</u>	15
Item 3. <u>Legal Proceedings</u>	15
Item 4. <u>Mine Safety Disclosures</u>	15
<u>Executive Officers of the Registrant</u>	15
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	17
Item 6. <u>Selected Financial Data</u>	20
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 8. <u>Financial Statements and Supplementary Data</u>	41
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	41
Item 9A. <u>Controls and Procedures</u>	41
Item 9B. <u>Other Information</u>	42
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	44
Item 11. <u>Executive Compensation</u>	44
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	44
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	44
Item 14. <u>Principal Accountant Fees and Services</u>	44
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	45
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Income</u>	F-4
<u>Consolidated Statements of Stockholders' Equity</u>	F-5
<u>Consolidated Statements of Cash Flows</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7
<u>Schedule II Valuation and Qualifying Accounts</u>	S-1

Table of Contents

PART I

Statements included in this report and its exhibits 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, plan, 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 Item 1A Risk Factors and Item 7 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.

Item 1. Business.

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, technology, 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. We are not a certified public accounting firm and do not provide audit, attest, or public accounting services. Our business is organized in four reporting segments Business Consulting Services, Dispute and Investigative Services, Economic Consulting, and International Consulting which are discussed in further detail below.

We are a Delaware corporation incorporated in 1996 and headquartered in Chicago, Illinois. Our executive office is located at 30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606. Our telephone number is (312) 573-5600. Our common stock is traded on the New York Stock Exchange under the symbol NCI .

General Development of the Business

Since our inception, we have grown through the recruitment of new consultants combined with acquisition investments of select firms that are complementary to our business. We completed a strategic review during 2009 and based on the results of that review we have been focused on managing our resources and concentrating on fewer practice areas that have growth potential and where we believe we enjoy scale and competitive advantages. Our growth strategy has been focused on the following areas: Healthcare, Energy, Disputes and Economics, which now comprise approximately 85% of our revenues. Over the past four years we have invested approximately \$120 million primarily in these four areas. Over the same period we have reduced our debt from \$320 million to \$132 million.

In 2008, we acquired Chicago Partners which formed the basis of our Economic Consulting segment and in early 2010 we acquired Empiris to expand this segment to the Washington, D.C. market, providing us with growth opportunities in the government and regulatory arena. In late 2009, we acquired Summit Blue to bolster our presence within the Energy market, specifically energy efficiency, demand-side management, Smart Grid and renewable energy strategies. In 2010, we expanded our healthcare consulting capabilities with the acquisition of EthosPartners and grew our Disputes and Investigative Services business specifically within the anti-money laundering and Foreign Corrupt Practices Act areas with the acquisition of Daylight Forensics. In 2011, we acquired Ignited Solutions which expanded our technology advisory solutions services, including electronic discovery data collection, data processing and data hosting within our Dispute and Investigative Services segment. We also acquired several smaller businesses to further complement our existing services within these practice areas. In addition to our acquisitions we continue to strengthen our team of recognized experts and thought leaders across various industries. In recent years we have hired over 100 senior level consultants. In addition to the growth discussed above, we continue to operate other businesses that complement our focus areas.

Table of Contents

(See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Acquisitions for further discussion of acquisitions made during the past three years.)

Human Capital Resources

At December 31, 2011, we had 2,542 employees. After adjusting total employees for part-time status we had 2,474 full time equivalent (FTE) employees. These FTE employees were comprised of the following:

1,827 consultants who are assigned to client service and record time to client engagements.

55 technology consultants who are assigned to client service and provide technology services but do not record time to specific client engagements.

65 project employees who perform client services on a contractual basis.

527 non-billable employees who are assigned to administrative and support functions, including office services, corporate functions, and certain practice support functions. The costs directly relating to practice support functions are recorded as costs of services before reimbursements.

Our revenues are primarily generated from services performed by our consultants; therefore, our success depends in large part on attracting, retaining and motivating talented, creative and experienced consultants at all levels and across geographies. We have acquired and seek to acquire these individuals through both recruitment and acquisitions of businesses. In connection with recruiting, we employ internal recruiters, retain executive search firms, and utilize personal and business contacts. Our consultants are drawn from the industries we serve, from accounting and other consulting organizations, and from top rated colleges and universities. Our consultants include but are not limited to PhDs, MDs, MBAs, JDs, CPAs, CRAs (certified risk analysts), Certified Fraud Examiners, ASAs (accredited senior appraisers), engineers, nurses and former government officials. In addition to recruiting consultants, we have acquired and seek to acquire certain consulting businesses to add highly skilled consultants, to enhance our service offerings and to expand our geographical footprint. We believe that the strategy of selectively acquiring consulting businesses and hiring additional consulting capabilities strengthens our platform, market share and overall operating results.

We retain our employees by offering competitive compensation packages of base and incentive compensation, and in certain instances share-based compensation and retention incentives, attractive benefits and rewarding careers. We continually review and adjust, if needed, our consultants' total compensation (including salaries, annual cash incentive compensation, other cash and equity incentives, and benefits) to ensure that it is competitive within the industry and is consistent with our performance. In addition to compensation, we promote numerous charitable, philanthropic, and social awareness programs that not only support our community, but also provide rewarding experiences for our employees outside of their client activities.

We regularly evaluate consultant resource levels and utilization against future demand expectations and historical trends. From time to time, we may reduce or add resources in certain areas in an effort to align with changing demands. In connection with these changing demands, we also utilize project employees and engage independent contractors to supplement our full-time consultants on certain engagements. We find that retaining independent contractors on a per-engagement basis from time to time allows us to quickly adjust staffing in response to changes in demand for our services without incurring up-front recruiting costs of increasing our full-time employee base.

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

Our bill rates or fees charged to clients are tiered in accordance with the experience and levels of our consultants. We monitor and adjust those bill rates or fees according to then-current market conditions for our service offerings and within the various industries we serve.

Table of Contents

Industry Sectors

We provide services to and focus on industries undergoing substantial regulatory or structural change. Our service offerings are relevant to most industries including the public sector. However, we have significant industry-specific knowledge and a large client base in the legal, energy, healthcare and financial services industries.

Competition

The market for consulting services is highly competitive, highly fragmented and subject to rapid change. The market includes a large number of participants with a variety of skills and industry expertise, including general management and information technology consulting firms, as well as global accounting firms, and other local, regional, national and international consulting firms. Many of these companies are international in scope and have larger teams of personnel, financial, technical and marketing resources than we do. In particular the Big Four accounting firms; PwC, Deloitte, Ernst & Young and KPMG, are highly competitive in the consulting industry. However, we believe that our experience, reputation, industry focus and broad range of service offerings enable us to compete effectively in the consulting marketplace.

Developing Client Relationships

We market our services directly to corporate counsel, law firms, governmental agencies, corporate boards, corporate executives and special committees. We use a variety of business development and marketing channels to communicate directly with current and prospective clients, including on-site presentations, industry seminars, and industry-specific articles. We have recently strengthened our market presence by developing our brand name. New engagements are sought and won by our senior and mid-level consultants working together with our business development team that supports all of our business segments. We seek to leverage our client relationships in one business segment to cross sell service offerings provided by the other business segments. Clients frequently expand the scope of engagements during delivery to include follow-on, complementary services. Our future performance will continue to depend upon our ability to win new engagements; retain consultants; develop and continue client relationships and maintain our reputation.

We believe our unique mix of deep industry expertise, combined with our scale, broad geographic presence, multi-disciplinary professionals and targeted service offerings, position us to serve the majority of our clients' challenges. We continue to establish programs to facilitate collaborative product development and marketing efforts, and also to develop new, innovative and repeatable solutions for our clients.

Financial Information about Business Segments

Our business is organized in four reporting segments – Business Consulting Services, Dispute and Investigative Services, Economic Consulting, and International Consulting. These reporting 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. We have three operating segments within the Business Consulting Services segment: Energy, Healthcare and Other Business Consulting Services. Our business is managed and resources are allocated on the basis of the six operating segments. Prior year comparative segment data has been restated to be consistent with the current presentation.

The Business Consulting Services reporting segment provides strategic, operational, financial, regulatory and technical management consulting services to clients, principally C suite executives and corporate management, government agencies and law firms. The reporting segment is comprised of three operating segments: Energy, Healthcare, and Other Business Consulting Services. Energy and Healthcare are defined as operating segments due to their size, importance and organizational reporting relationships. The two operating segments represented 73%, 72% and 64% of reporting segment revenues before reimbursements for the years

Table of Contents

ended December 31, 2011, 2010 and 2009, respectively and provide services to clients in those respective markets. Our Other Business Consulting operating segment provides operations advisory, valuation and restructuring services to the financial services and other industries.

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 counsels, corporate boards and government agencies.

The Economic Consulting reporting segment provides economic and financial analyses of complex legal and business issues principally for law firms, corporations and governmental 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.

The International Consulting reporting segment provides a mix of dispute and business consulting service offerings to clients predominately outside North America. The clients are principally C suite executives and corporate management, governmental agencies and law firms.

Segment revenues before reimbursements, segment total revenues and segment operating profit (together with a reconciliation to income before income tax expense) for the last three years are included in Note 4 Segment Information to the notes to our consolidated financial statements. Certain unallocated expense amounts related to specific reporting segments have been excluded from the calculation of 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 consultants. The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses. Long-term compensation expense related to consultants includes share-based compensation expense and compensation expense attributed to retention incentives (see Note 9 Supplemental Consolidated Balance Sheet Information to the notes to our consolidated financial statements).

Revenues attributable to each segment as a percentage of total company revenues were as follows:

	For the Year Ended December 31,		
	2011	2010	2009
Business Consulting Services	43.8%	40.5%	38.1%
Dispute and Investigative Services	37.1%	38.9%	42.8%
Economic Consulting	9.1%	10.5%	7.8%
International Consulting	10.0%	10.1%	11.3%

Segment operating profit attributable to each segment as a percentage of total company segment operating profit was as follows:

	For the Year Ended December 31,		
	2011	2010	2009
Business Consulting Services	40.9%	39.2%	36.5%
Dispute and Investigative Services	44.1%	45.1%	48.7%
Economic Consulting	9.1%	10.7%	7.9%
International Consulting	5.9%	5.0%	6.9%

Table of Contents

Segment operating profit as a percentage of segment revenues before reimbursements was as follows:

	For the Year Ended December 31,		
	2011	2010	2009
Business Consulting Services	33.4%	34.2%	34.9%
Dispute and Investigative Services	40.5%	38.7%	40.7%
Economic Consulting	32.9%	34.3%	35.3%
International Consulting	21.8%	18.9%	24.2%
Total segment operating profit	35.0%	34.6%	36.3%

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

	December 31,	
	2011	2010
Business Consulting Services	\$ 277,740	\$ 266,450
Dispute and Investigative Services	353,535	355,990
Economic Consulting	82,517	90,750
International Consulting	72,063	71,142
Unallocated assets	89,346	84,703
Total assets	\$ 875,201	\$ 869,035

How Our Income is Derived

We derive our revenues from fees and reimbursable expenses for professional services. A majority of our revenues are generated under hourly or daily rates billed on a time and materials basis. Clients are typically invoiced on a monthly basis, with revenues recognized as the services are provided. There are also client engagements in which we are paid a fixed amount for our services, often referred to as fixed fee billings; the vast majority of our Healthcare operating segment utilizes fixed fee billing arrangements. This may be one single amount covering the whole engagement or several amounts for various phases or functions of the engagement. From time to time, we earn incremental revenues, in addition to hourly or fixed fee billings, which are contingent on the attainment of certain contractual milestones or objectives. We also recognize revenues from business referral fees or commissions on certain contractual outcomes. These performance based and referral revenues may cause unusual variations in our quarterly revenues and results of operations.

Our most significant expense is labor costs, which consists of consultant salaries, incentive compensation, amortization of sign-on and retention incentive payments, share-based compensation and benefits. Labor costs are reported in cost of services before reimbursable expenses, which also includes sales and marketing expenses and the direct costs of recruiting and training consultants.

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

Concentration of Revenues

Revenues earned from our top 20 clients amounted to 26%, 23% and 20% of our total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. The increase over the past two years related primarily to larger credit crisis related jobs in our Dispute and Investigative Services segment. Revenues earned from our top

Table of Contents

10 clients amounted to 19%, 16% and 14% of our total revenues for the years ended December 31, 2011, 2010 and 2009, respectively. No single client accounted for more than 5% of our total revenues for any of the years ended December 31, 2011, 2010 and 2009. The mix of our largest clients may change from year to year. Some of our top clients, such as certain law firms, retain our services on behalf of their clients and those clients may change from year to year.

Non-U.S. Operations

We have offices in the United Kingdom, Canada, Hong Kong, and Dubai. In addition, we have clients based in the United States that have international operations. The United Kingdom accounted for 10% of our total revenues for the years ended December 31, 2011 and 2010 and 11% of our total revenue for the year ended December 31, 2009. No country, other than the United States and the United Kingdom, accounted for more than 10% of our total revenues in any of the three years ended December 31, 2011, 2010 and 2009. Our non-U.S. subsidiaries, in the aggregate, represented approximately 12%, or \$97.1 million, of our total revenues in 2011 compared to 13%, or \$94.3 million, in 2010 and 16%, or \$114.6 million, in 2009.

Available Information

We maintain a corporate website at www.navigant.com. The content of our website is not incorporated by reference into this report or any other reports we file with, or furnish to, the SEC.

Investors can obtain access to our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K free of charge (as soon as reasonably practicable after these materials are electronically filed with, or furnished to, the SEC) by going to the Investor Relations section of our website (www.navigant.com/investor_relations) and searching under SEC Filings. These materials are also available in printed form free of charge upon request. Requests should be submitted to: Navigant Consulting, Inc., 30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606, Attention: Investor Relations.

Item 1A. Risk Factors.

In addition to other information contained in this report and in the documents incorporated by reference herein, the following risk factors should be considered carefully in evaluating us and our business. These factors could have a significant impact on our business, operating results and financial condition.

Our business, results of operations and financial condition could be adversely affected by disruptions in the marketplace caused by economic and political conditions.

Global economic and political conditions affect our clients' businesses and the markets they serve. A severe and/or prolonged economic downturn or a negative or uncertain political climate could adversely affect our clients' financial condition and the levels and types of business activity engaged in by our clients and the industries we serve. Clients could determine that discretionary projects are no longer viable or that new projects are not advisable. This may reduce demand for our services, depress pricing for our services or render certain of our services obsolete, all of which could have a material adverse effect on our business, results of operations and financial condition. Changes in global economic conditions or the regulatory or legislative landscape could also shift demand to services that we do not offer or for which we do not have competitive advantages, and this could negatively affect the amount of new business that we are able to obtain. Although we have implemented ongoing cost management measures, if we are unable to appropriately manage costs or if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be adversely affected. Additionally, significant economic turmoil or financial market disruptions could also adversely impact the availability of financing to our clients and therefore may adversely impact our ability to collect amounts due from our clients or cause them to terminate their contracts with us, each of which could adversely affect our results of operations.

Table of Contents

We cannot be assured that we will have access to sufficient sources of capital to meet our working capital needs or the future needs of our business.

In May 2011, we entered into a new unsecured credit agreement with a syndicate of banks. The credit agreement provides us a five-year \$400.0 million revolving credit facility, which may be increased to \$500.0 million at our option, subject to the terms and conditions specified in the credit agreement. We use the credit facility to assist in funding our short-term working capital and long-term cash requirements. At December 31, 2011, we had \$131.8 million in borrowings outstanding under the credit facility. There can be no assurance that the credit facility will continue to be sufficient to meet the future needs of our business, particularly if a decline in our financial performance occurs. If this occurs, and we are unable to otherwise increase our operating cash flows or raise additional capital or obtain other debt financing, we may be unable to meet our future working capital needs or, for example, consummate future acquisitions. Furthermore, if our clients' financial condition were to deteriorate, resulting in an impairment of their ability to make payments to us, our financial position and operating cash flows would be adversely impacted. Lastly, certain financial institutions that are lenders under our credit facility could be adversely impacted by a depressed economy and therefore unable to meet their commitments under our credit facility, which in turn would reduce the amounts available to us under that facility.

Our failure to comply with the covenants in our credit agreement could have a material adverse effect on our financial condition and liquidity.

Our credit agreement contains financial covenants requiring, among other things, certain levels of interest and debt coverage. Poor financial performance could cause us to be in default of these covenants. While we were in compliance with these covenants at December 31, 2011, there can be no assurance that we will remain in compliance in the future. Our borrowings under our credit facility tend to be higher during the first half of the year to fund annual incentive payments, and as a result, our consolidated leverage ratio is expected to increase from December 31, 2011 levels. If we fail to comply with the covenants in our credit agreement, this could result in our having to seek an amendment or waiver from our lenders to avoid the termination of their commitments and/or the acceleration of the maturity of outstanding amounts under the credit facility. The cost of our obtaining an amendment or waiver could be significant, and further, there can be no assurance that we would be able to obtain an amendment or waiver. If our lenders were unwilling to enter into an amendment or provide a waiver, all amounts outstanding under our credit facility would become immediately due and payable.

We have variable rate indebtedness which subjects us to interest rate risk and may cause our annual debt service obligations to increase significantly.

Borrowings under our credit facility are at variable rates of interest which expose us to interest rate risk. If interest rates increase, our debt service obligations would increase even though the amount borrowed remained the same, and in turn, our net income would decrease.

Our business could be impacted by competition and regulatory and legislative changes.

The market for consulting services is highly competitive, highly fragmented, and subject to rapid change. The market includes a large number of participants with a variety of skills and industry expertise, including general management and information technology consulting firms, as well as the global accounting firms and other local, regional, national, and international consulting firms. Many of these firms are international in scope and have larger teams of personnel, financial, technical and marketing resources than we do. Some firms may have lower overhead and other costs and, therefore, may be able to more effectively compete through lower cost service offerings. Many of our clients operate in highly regulated industries such as healthcare, energy, financial services and insurance. Regulatory and legislative changes in these industries potentially render certain of our service offerings obsolete and decrease our competitive position. If we cannot compete effectively, our revenues and results of operations could be adversely impacted.

Table of Contents

Our inability to successfully recruit and retain senior-level consultants will affect our ability to win new engagements and compete effectively.

We rely heavily on a group of senior-level consultants, and we believe our future success is dependent on our ability to retain their services. Competition for skilled consultants is intense, and compensation and retention related issues are a continuing challenge. The consulting industry has low barriers to entry making it easy for consultants to start their own business or work independently. In addition, it is relatively easy for consultants to change employers. Further, limitations on available shares under our equity compensation plans or a sustained decline in our stock price could also impair our ability to offer share-based compensation as incentives to our senior-level consultants.

Our inability to attract, retain and motivate our senior-level consultants, as well as corporate management, could have an adverse effect on our ability to win new client engagements or meet client needs in our current engagements, and our revenues and results of operations could be adversely affected. Further, our failure to realize the expected financial returns from our recruiting investments could adversely impact our results of operations.

Our revenues and profitability may suffer if we are not able to maintain current bill rates and/or utilization rates.

Our revenues, and in turn our profitability, are largely based on the bill rates charged to clients and the number of hours our consultants work on client engagements, which we define as the utilization of our consultants. Accordingly, if we are not able to maintain the bill rates for our services or appropriate utilization rates for our consultants, our revenues, profit margins and profitability may suffer. Bill rates and consultant utilization rates are affected by a number of factors, including:

Our ability to predict future demand for our services and maintain the appropriate staffing levels without significant underutilized consulting personnel;

Our ability to transition consultants from completed projects to new client engagements;

Our clients' perceptions of our ability to add value through our services;

Our competitors' pricing of services;

The market demand for our services;

Our ability to manage our human capital resources;

Our ability to manage significantly larger and more diverse workforces as we increase the number of our consultants and execute our growth strategies; and

The economic, political and regulatory environment as noted above.

Additionally, the profitability of our fixed-fee client engagements may not meet our expectations if we underestimate the cost of these engagements.

Our inability to attract business from new or existing clients could have a material adverse effect on our results of operations.

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Many of our client engagement agreements are short term in nature (less than one year) and can be terminated by our clients with little or no notice and without penalty. For example, in our litigation-related engagements, if the litigation is settled, our services usually are no longer necessary and our engagement is promptly terminated. Some of our services involve multiple engagements or stages. In those engagements, there is a risk that a client may choose not to retain us for the additional stages of an engagement or that a client will cancel or delay additional planned engagements. Our client engagements are usually relatively short term in comparison to our office-related expenses and other infrastructure commitments.

Table of Contents

In the past, we have derived significant revenues from events as inherently unpredictable as the California energy crisis, the Sarbanes-Oxley Act of 2002, healthcare reform, the credit crisis and significant natural disasters including major hurricanes and earthquakes. Those events, in addition to being unpredictable, often have impacts that decline over time as clients adjust to and compensate for the challenges they face. These factors also limit our ability to predict future revenues and make corresponding adjustments to our consulting staffing levels, which in turn could adversely impact our results of operations.

Unsuccessful client engagements could result in damage to our professional reputation or legal liability which could have a material adverse effect on us.

Our professional reputation and that of our consultants is critical to our ability to successfully compete for new client engagements and attract and retain employees. Any factors that damage our professional reputation could have a material adverse effect on our business.

In addition, our client engagements subject us to the risk of legal liability. Any public assertion or litigation alleging that our services were deficient or that we breached any of our obligations to a client could expose us to significant legal liabilities, distract our management and damage our reputation. Our professional insurance may not cover every type of claim or liability that could potentially arise from our client engagements. In addition, the limits of our insurance coverage may not be enough to cover a particular claim or a group of claims and the costs of defense.

Some of the work we do involves greater risk than ordinary consulting engagements.

We do work for clients that for financial, legal or other reasons may present higher than normal risks. While we attempt to identify and mitigate our exposure with respect to higher risk engagements and higher risk clients, these efforts may be ineffective and an actual or alleged error or omission on our part or the part of our client or other third parties in one or more of these higher-risk engagements could have a material adverse impact on our financial condition. Examples of higher risk engagements include, but are not limited to:

Interim management engagements, including those for hospitals and other healthcare providers;

Engagements where we assist clients in complying with healthcare-related regulatory requirements, including clinical documentation improvement training and auditing services, revenue cycle and operational performance improvement services, billing services, medical record coding and auditing services, strategic consulting for hospital and health system merger and affiliation, and independent review organization assignments

Corporate restructuring engagements, both inside and outside bankruptcy proceedings;

Engagements where we deliver a fairness opinion;

Engagements where we deliver project management services for large construction projects;

Engagements where we receive or process sensitive data, including personal consumer or private health information;

Engagements where we deliver a compliance effectiveness opinion; and

Engagements involving independent consultants' reports in support of financings.

We encounter professional conflicts of interest.

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If we are unable to accept new engagements for any reason, including business and legal conflicts, our consultants may become underutilized or discontented, which may adversely affect our future revenues and results of operations, as well as our ability to retain these consultants. In addition, although we have systems and procedures to identify potential conflicts of interest prior to accepting a new engagement, there is no guarantee that all potential conflicts of interest will be identified and undetected conflicts may result in damage to our reputation and result in professional liability which may adversely impact our business and results of operations.

Table of Contents

Our international operations create special risks.

We have offices in the United Kingdom, Canada, Hong Kong, Dubai and other cities outside of the U.S. and conduct business in several other countries. We expect to continue to expand globally and our international revenues may account for an increasing portion of our revenues in the future. Our international operations carry special financial, business and legal risks, including:

Cultural and language differences;

Employment laws and related factors that could result in lower utilization, higher staffing costs, and cyclical fluctuations of utilization and revenues;

Currency fluctuations that adversely affect our financial position and operating results;

Differing regulatory requirements and other barriers to conducting business;

Impact on consulting spend from international firms and global economies impacted by the European sovereign debt crisis and related government and economic response

Managing the risks associated with engagements performed by employees and independent contractors with foreign officials and governmental agencies, including the risks arising from the Foreign Corrupt Practices Act;

Greater difficulties in managing and staffing foreign operations, including in high risk geographies;

Successful entry and execution in new markets;

Restrictions on the repatriation of earnings; and

Potentially adverse tax consequences, such as net operating loss carry forwards that cannot be realized.

If we are not able to successfully mitigate the special risks associated with our international operations, our business prospects and results of operations could be negatively impacted.

Our work with governmental clients has inherent risks related to the governmental contracting process.

We work for various United States, state, local, and foreign governmental entities and agencies. These projects have special risks that include, but are not limited to, the following:

Governmental agencies generally reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to governmental contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for them or the cost must be refunded to the governmental entity if it has already

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been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed rates for work which would affect our future profit margins.

If a governmental client discovers improper or illegal activities in the course of its audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government.

Governmental contracts, and the proceedings surrounding them, are often subject to more extensive scrutiny and publicity than other commercial contracts. Negative publicity related to our governmental contracts, regardless of whether it is accurate, may damage our business by affecting our ability to compete for new contracts.

The impact of any of the occurrences or conditions described above could affect not only our relationship with the particular governmental agency involved, but also other agencies of the same or other governmental entities. Depending on the size of the engagement or the magnitude of the potential costs, penalties or negative publicity involved, any of these occurrences or conditions could have a material adverse effect on our business or results of operations.

Table of Contents

We have invested in specialized technology and other intellectual property for which we may fail to fully recover our investment or which may become obsolete.

We have invested in developing specialized technology and intellectual property, including proprietary systems, processes and methodologies, that we believe provide us a competitive advantage in serving our current clients and winning new engagements. Many of our service offerings rely on specialized technology or intellectual property that is subject to rapid change, and to the extent that this technology and intellectual property is rendered obsolete and of no further use to us or our clients, our ability to continue offering these services, and grow our revenues, could be adversely affected. There is no assurance that we will be able to develop new, innovative or improved technology or intellectual property or that our technology and intellectual property will effectively compete with the intellectual property developed by our competitors. If we are unable to develop new technology and intellectual property or if our competitors develop better technology or intellectual property, our revenues and results of operations could be adversely affected.

If the integrity of our information systems is compromised or our information systems are inadequate to keep up with the needs of our business, our reputation, business and results of operations could be adversely affected.

We depend on information systems to manage and run our business. Additionally, certain services we provide require us to store, transmit or process sensitive or confidential client information, including personal consumer information and health or other personally identifiable information. If any person, including any of our employees or third-party vendors with whom we contract for data hosting services, negligently disregards or intentionally breaches the information security controls we have implemented to protect our clients' data, or those security controls prove to be inadequate, we could incur legal liability and may also be subject to regulatory enforcement actions, fines and/or criminal prosecution in multiple jurisdictions. Our potential liability in the event of a security breach of client data could be significant and depending on the circumstances giving rise to the breach, this liability may not be subject to a contractual limit of liability or an exclusion of consequential or indirect damages. Any unauthorized disclosure of sensitive or confidential data, whether through systems failure, employee negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems, including an intentional attack by a person or persons who may develop and deploy viruses, worms or other malicious software programs, could result in negative publicity, legal liability and damage to our reputation and could have a material adverse effect on our results of operations.

In addition, the scale and complexity of our business and new service offerings may require additional information systems that we may not be able to implement in a timely or cost effective manner. This may impair our ability to achieve our operating objectives and retain our competitive position, which in turn could adversely affect our results of operations.

We may be exposed to potential risks if we are unable to achieve and maintain effective internal controls.

If we fail to achieve and maintain adequate internal control over financial reporting or fail to implement necessary new or improved controls that provide reasonable assurance of the reliability of the financial reporting and the preparation of our financial statements for external purposes, we may fail to meet our public reporting requirements on a timely basis, and may be unable to adequately or accurately report on our business and our results of operations. Even with adequate internal controls, we may not prevent or detect all misstatements or fraud. Also, internal controls that are currently adequate may in the future become inadequate because of changes in conditions, and the degree of compliance with our policies or procedures may deteriorate. This could have a material adverse effect on the market price of our stock.

Acquired businesses may not achieve expected results which could adversely affect our financial performance.

We have grown our business, in part, through the acquisition of complementary businesses. The substantial majority of the purchase price we pay for acquired businesses is related to goodwill and intangible assets. We may not be able to realize the value of those assets or otherwise realize anticipated synergies unless we are able

Table of Contents

to effectively integrate the businesses we acquire. We face multiple challenges in integrating acquired businesses and their personnel, including differences in corporate cultures and management styles, retention of personnel, conflict issues with clients, and the need to divert managerial resources that would otherwise be dedicated to our current businesses. Additionally, certain senior-level consultants, as sellers of the acquired businesses, are bound by non-competition covenants that expire after a specific amount of time from the date of acquisition. When these covenants expire, our ability to retain these senior-level consultants could significantly impact the acquired businesses. Any failure to successfully integrate acquired businesses and retain personnel could cause the acquired businesses to fail to achieve their expected results, which would in turn, adversely affect our financial performance and may require a possible impairment of the acquired assets. Additionally, the financing of acquisitions through cash, borrowings or common stock could also impair our liquidity or cause significant stock dilution.

Goodwill and other intangible assets represent a significant portion of our assets, and an impairment of these assets could have a material adverse effect on our financial condition and results of operations.

Because we have acquired a significant number of businesses, goodwill and other intangible assets represent a significant portion of our assets. Under generally accepted accounting principles, we are required to perform an impairment test at the reporting unit level on our goodwill and, on a quarterly basis; we are required to assess both goodwill and long-lived intangible assets. We consider our operating segments to be our reporting units. We may need to perform an impairment test more frequently if events occur or circumstances indicate that the carrying amount of these assets may not be recoverable. These events or circumstances could include a significant change in the business climate, attrition of key personnel, a prolonged decline in our stock price and market capitalization, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of one of our businesses, and other factors. For example, during the year ended December 31, 2010, we recorded an impairment charge of \$7.3 million related to certain customer lists and relationships and non-compete agreements in two markets within our International Consulting segment. If the fair market value of one of our reporting units or other long term assets is less than the carrying amount of the related assets, we could be required to record an impairment charge in the future. The valuation of the reporting units requires judgment in estimating future cash flows, discount rates and other factors. In making these judgments, we evaluate the financial health of our reporting units, including such factors as market performance, changes in our client base and projected growth rates. Because these factors are ever changing, due to market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long-lived intangible assets may be impaired in future periods. At December 31, 2011, we had goodwill of \$570.3 million and net intangible assets of \$16.8 million. The amount of any future impairment could be significant and could have a material adverse effect on our financial results. See Note 5 Goodwill and Intangible Assets, Net to the notes to our consolidated financial statements.

We are subject to unpredictable risks of litigation.

Although we seek to avoid litigation whenever possible, from time to time we are party to various lawsuits and claims. Disputes may arise, for example, from client engagements, employment issues, regulatory actions, business acquisitions, real estate and other commercial transactions. There can be no assurances that any lawsuits or claims will be immaterial in the future.

Item 1B. Unresolved Staff Comments.

None.

Table of Contents**Item 2. Properties.**

We have approximately 50 operating leases for office facilities, principally in the United States. Due to acquisitions and growth, we often times have more than one operating lease in the cities in which we have offices. Our office space needs in certain geographic areas may change as our business expands or contracts in those areas. We believe we will be able to adjust our lease holdings as needed but we may incur office consolidation expenses associated with reductions in our office space. The following are our principal regional office locations:

United States:

Atlanta, Georgia
 Chicago, Illinois
 Los Angeles, California
 New York, New York
 San Francisco, California
 Washington, D.C.

Outside of the United States:

China Hong Kong
 Canada Toronto
 United Kingdom London
 UAE Dubai

Item 3. Legal Proceedings.

We are not party to any material legal proceedings.

Item 4. Mine Safety Disclosures.

Not applicable.

Executive Officers of the Registrant

The following are our executive officers at February 17, 2012:

Name	Title	Age
William M. Goodyear	Chairman of the Board and Chief Executive Officer	63
Julie M. Howard	President and Chief Operating Officer	49
Thomas A. Nardi	Executive Vice President and Chief Financial Officer	57
Monica M. Weed	Vice President, General Counsel and Secretary	51

William M. Goodyear, 63, has served as our Chairman of the Board and Chief Executive Officer since May 2000. He has served as a director since December 1999. Prior to December 1999, he served as Chairman and Chief Executive Officer of Bank of America Illinois and was President of Bank of America's Global Private Bank. From 1972 to 1999, Mr. Goodyear held a variety of assignments with Continental Bank, subsequently Bank of America, including corporate finance, corporate lending, trading and distribution. During this 28-year period, Mr. Goodyear was stationed in London for 5 years (1986 to 1991) to manage Continental Bank's European and Asian Operations. He was Vice Chairman and a member of the Board of Directors of Continental Bank prior to the 1994 merger between Continental Bank and BankAmerica Corporation. Mr. Goodyear is a trustee and member of the Executive Committee of the Board of Trustees for the Museum of Science and Industry and a member of the Board of Trustees of the University of Notre Dame and serves on the Rush University Medical Center Board, where he is Vice Chairman and a member of the Executive Committee and Chair of the Finance Committee. During the last five years, Mr. Goodyear was a trustee of Equity Office Properties Trust, where he chaired the Audit Committee, prior to the sale of the company in 2007. Mr. Goodyear received a Master's degree in Business Administration, with Honors, from the Amos Tuck School of Business at Dartmouth College, and a Bachelor's degree in Business Administration, with Honors, from the University of Notre Dame.

Julie M. Howard, 49, has served as our President since February 2006 and has served as our Chief Operating Officer since 2003. From 2001 to 2003, Ms. Howard was our Vice President and Human Capital Officer. Prior to 2001, Ms. Howard held a variety of consulting and operational positions with several

Table of Contents

professional services firms. Ms. Howard is currently a member of the Board of Directors of Kemper Corporation and a member of the Foundation Board for Children's Memorial Hospital. Ms. Howard is a founding member of the Women's Leadership and Mentoring Alliance (WLMA). Ms. Howard is a graduate of the University of Wisconsin, with a Bachelor of Science degree in Finance. She has also completed several post-graduate courses within the Harvard Business School Executive Education program, focusing in Finance and Management.

Thomas A. Nardi, 57, has served as our Executive Vice President and Chief Financial Officer since November 2008. Previously, Mr. Nardi served as President of Integrys Business Support, a wholly owned unit of Integrys Energy Group, a NYSE-listed public utility and energy company. From 2001 to 2007, he served as Executive Vice President and Chief Financial Officer for Peoples Energy. Prior to joining Peoples, Mr. Nardi spent 19 years at NICOR, one of the nation's largest gas distribution utilities, where he held a variety of financial and strategic management roles including Corporate Controller and Treasurer. Mr. Nardi began his career in the audit practice of Arthur Andersen. Mr. Nardi received a degree in accounting from Western Illinois University and a Master's degree in Business Administration from the University of Chicago.

Monica M. Weed, 51, has served as our Vice President, General Counsel and Secretary since November 2008. Previously, Ms. Weed served as Associate General Counsel for Baxter Healthcare Corporation from March 2006 to October 2008. From March 2004 to March 2006, Ms. Weed served as Special Counsel, Rights Agent and Litigation Trustee to Information Resources, Inc. Litigation Contingent Payment Rights Trust, a publicly traded litigation trust. From 1991 through 2004, Ms. Weed served in a variety of legal roles, including Executive Vice President, General Counsel and Corporate Secretary, for Information Resources, Inc., an international market research provider to the consumer packaged goods industry. She started her legal career at the law firm of Sonnenschein Nath & Rosenthal (now SNR Denton). Ms. Weed received a Bachelor of Arts in Classics from Northwestern University, a law degree from the Northwestern University School of Law and a Master's degree in Business Administration from the Kellogg Graduate School of Management, Northwestern University.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
Market Information**

Our common stock is traded on the New York Stock Exchange under the symbol NCI. The following table sets forth, for the periods indicated, the high and low closing sale prices per share of our common stock.

	High	Low
2011		
Fourth quarter	\$ 11.99	\$ 8.65
Third quarter	\$ 11.99	\$ 8.52
Second quarter	\$ 11.84	\$ 9.27
First quarter	\$ 10.43	\$ 9.05
2010		
Fourth quarter	\$ 12.31	\$ 8.32
Third quarter	\$ 11.63	\$ 8.85
Second quarter	\$ 13.46	\$ 10.38
First quarter	\$ 15.10	\$ 11.57

 Holders

At February 14, 2012, there were 292 holders of record of our shares of our common stock.

Shares of our common stock that are registered in the name of a broker or other nominee are listed as a single shareholder on our record listing, even though they are held for a number of individual shareholders. As such, our actual number of shareholders is higher than the number of shareholders of record.

 Dividends

We did not declare or pay any dividends during the years ended December 31, 2011 or December 31, 2010. Dividend and other capital structure policy issues are reviewed on a periodic basis by our board of directors. In addition, the covenants in our credit agreement may limit our ability to pay dividends in the future.

Table of Contents**Shareholder Return Performance Graph**

The following graph compares the yearly percentage change in the cumulative total shareholder return on our common stock against the New York Stock Exchange Market Index (the NYSE Index) and the peer group described below. The graph assumes that \$100 was invested on December 31, 2006 in each of our common stock, the NYSE Index and the peer group. The graph also assumes that all dividends, if paid, were reinvested.

Note: The stock price performance shown below is not necessarily indicative of future price performance.

Measurement Period	Navigant	NYSE	New Peer Group(a)	Old Peer Group(b)
	Consulting Inc.	Index		
FYE 12/31/06	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
FYE 12/31/07	69.17	109.13	114.34	106.58
FYE 12/31/08	80.29	66.41	80.62	79.91
FYE 12/31/09	75.20	85.38	92.01	81.21
FYE 12/31/10	46.56	97.02	113.62	94.64
FYE 12/31/11	57.74	93.43	118.35	100.50

Notes:

- a) The New Peer Group consists of the following companies: The Advisory Board Company, CBIZ Inc., The Corporate Executive Board Company, CRA International Inc. (formerly known as Charles River Associates, Inc.), Duff & Phelps Corporation, Exponent, Inc., FTI Consulting, Inc., Gartner Group, Inc., Heidrick & Struggles International Inc., Hill International, Inc., Huron Consulting Group Inc., ICF International, Inc., HIS, Inc., Korn/Ferry International, MAXIMUS, Inc., Resources Connection, Inc., Sapient Corporation, Tetra Tech, Inc., TRC Companies and VSE Corporation. The New Peer Group is weighted by market capitalization. The New Peer Group is the same as the current peer group used by the compensation committee of our board of directors to make executive compensation decisions. The peer group is reviewed and modified, if necessary, on an annual basis.
- b) The Old Peer Group consists of the following companies: The Advisory Board Company, Corporate Executive Board Company, CRA International Inc. (formerly known as Charles River Associates, Inc.), Duff & Phelps

Table of Contents

Corporation, Exponent, Inc., FTI Consulting, Inc., Gartner Group, Inc., Huron Consulting Group Inc., ICF International, Inc., LECC Corporation, MAXIMUS, Inc., Resources Connection, Inc. and Tetra Tech, Inc. The Old Peer Group is weighted by market capitalization.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth repurchases of our common stock during the fourth quarter of 2011:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (b)
October 1 - 31, 2011	9,117	\$ 10.14		\$ 100,000,000
November 1 - 30, 2011	110,334	\$ 10.92	98,900	\$ 98,924,298
December 1 - 31, 2011	141,362	\$ 10.90	135,400	\$ 97,448,986
Total	260,813	\$ 10.88	234,300	

- (a) Includes 26,513 shares of our common stock withheld by us to satisfy individual tax withholding obligations in connection with the vesting of restricted stock during the period.
- (b) On October 25, 2011, our board of directors extended until December 31, 2014 its previous authorization to repurchase up to \$100 million of our common stock, in open market or private transactions. The previous authorization was scheduled to expire on December 31, 2011.

Table of Contents**Item 6. Selected Financial Data.**

The following five year financial and operating data should be read in conjunction with the information set forth under Item 7 Management Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto appearing elsewhere in this report. The amounts are shown in thousands, except for per share data.

	For the Year Ended December 31,				
	2011	2010	2009	2008	2007
Revenues before reimbursements	\$ 695,714	\$ 623,461	\$ 636,748	\$ 727,062	\$ 681,238
Reimbursements	88,970	80,199	70,491	83,578	85,820
Total revenues	784,684	703,660	707,239	810,640	767,058
Cost of services before reimbursable expenses	467,045	418,523	416,545	444,035	421,032
Reimbursable expenses	88,970	80,199	70,491	83,578	85,820
Total cost of services	556,015	498,722	487,036	527,613	506,852
General and administrative expenses	130,415	121,685	129,048	155,378	141,430
Depreciation expense	13,303	14,457	17,600	17,302	16,179
Amortization expense	8,658	12,368	13,014	16,386	17,494
Other operating costs (benefit):					
Separation and severance costs					7,288
Office consolidation		(900)	8,810	5,207	6,750
Intangible assets impairment		7,307			
Gain on sale of property					(2,201)
Operating income	76,293	50,021	51,731	88,754	73,266
Interest expense	7,292	10,704	15,076	20,146	15,438
Interest income	(1,447)	(1,309)	(1,211)	(1,182)	(667)
Other income, net	(279)	(567)	(182)	(62)	(43)
Income before income tax expense	70,727	41,193	38,048	69,852	58,538
Income tax expense	29,597	17,136	16,101	29,795	25,142
Net income	\$ 41,130	\$ 24,057	\$ 21,947	\$ 40,057	\$ 33,396
Basic net income per share	\$ 0.81	\$ 0.49	\$ 0.46	\$ 0.86	\$ 0.67
Shares used in computing income per basic share	50,820	49,405	48,184	46,601	49,511
Diluted net income per share	\$ 0.80	\$ 0.48	\$ 0.44	\$ 0.83	\$ 0.66
Shares used in computing income per diluted share	51,371	50,447	49,795	48,285	50,757

	At December 31,				
	2011	2010	2009	2008	2007
Balance Sheet Data:					
Cash and cash equivalents	\$ 2,969	\$ 1,981	\$ 49,144	\$ 23,134	\$ 11,656
Working capital	\$ 64,681	\$ 63,906	\$ 114,744	\$ 97,988	\$ 102,040
Total assets	\$ 875,201	\$ 869,035	\$ 820,245	\$ 792,393	\$ 778,697
Total non-current liabilities	\$ 205,199	\$ 252,735	\$ 268,019	\$ 296,076	\$ 309,425
Total stockholders' equity	\$ 513,678	\$ 460,721	\$ 418,792	\$ 365,758	\$ 342,753

Table of Contents

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations.*

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

Overview

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

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

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

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

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

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

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

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

Additional information about our operations is included in the preceding Business section.

Table of Contents

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 reporting 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 recorded in other current and non-current liabilities was estimated to be \$2.6 million. We expect to pay \$1.0 million of the contingent consideration in the quarter ending March 31, 2012. 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 Healthcare operating segment.

2010 Acquisitions

On October 1, 2010, we acquired the assets of EthosPartners Healthcare Management Group, Inc. to enhance our Healthcare operating segment. EthosPartners was a national healthcare consulting group specializing in physician and hospital alignment, physician practice operations management, and physician revenue cycle management. This acquisition included 180 consulting professionals and has been integrated into our Business Consulting Services reporting segment. We acquired EthosPartners for approximately \$37.0 million, which consisted of \$28.0 million in cash paid at closing, \$2.0 million in restricted stock issued at closing and \$7.0 million in deferred payments. The restricted stock and deferred payments were recorded at fair value, and the deferred payments were recorded in other current and non-current liabilities. The deferred payments are payable in cash in two equal installments on the first and second anniversaries of the closing date. On October 1, 2011, we paid the first installment of \$3.5 million. In addition, EthosPartners can earn up to a total of \$8.0 million of additional payments based on the business achieving certain performance targets during each of the three years after closing. Fair value of the contingent consideration, recorded in other current and non-current liabilities, was estimated to be \$5.6 million. We expect to pay approximately \$1.1 million of the contingent consideration during the quarter ending March 31, 2012. As part of the purchase price allocation, we recorded \$6.4 million in identifiable intangible assets and \$35.6 million in goodwill. The purchase price paid in cash at closing was funded with borrowings under our credit facility.

On May 14, 2010, we acquired the assets of Daylight Forensic & Advisory LLC to enhance our investigative service offerings and to add significant presence in the New York market. Daylight was a consulting and investigative firm specializing in regulatory compliance and fraud risk management, with extensive capabilities in anti-money laundering and Foreign Corrupt Practices Act-related matters. This acquisition included 65 consulting professionals and has been integrated into our Dispute and Investigative Services reporting segment. The purchase price of approximately \$40.0 million consisted of \$29.9 million in cash paid at closing and \$10.0 million in cash paid 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 with borrowings under our credit facility.

On January 20, 2010, we acquired the assets of Empiris, LLC to enhance our Economic Consulting segment and to provide significant expertise and growth opportunities in our Washington, D.C. market. This acquisition consisted of nine professionals and has been integrated into our Economic Consulting reporting segment. We acquired Empiris for \$5.5 million, which consisted of \$4.0 million in cash paid at closing and \$1.5 million, paid in cash in two equal installments on December 31, 2010 and January 3, 2012. In addition, the purchase

Table of Contents

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. Fair value of the contingent consideration, recorded in other current and non-current liabilities, was estimated to be \$1.9 million. During the year ended December 31, 2011, we paid approximately \$0.2 million of the contingent consideration and expect to pay an additional \$0.3 million in the quarter ending March 31, 2012. 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 one business, in December 2010, for a purchase price of \$1.0 million. The acquired business has been integrated into our International Consulting reporting segment.

2009 Acquisitions

On December 31, 2009, we acquired the assets of Summit Blue Consulting, LLC 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, consisted of approximately 60 consultants and was integrated into our Business Consulting Services segment. We acquired Summit Blue 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, which were paid 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.

On February 23, 2009, we acquired assets of Morse PLC's Investment Management Consulting Business from Morse PLC located in the United Kingdom for \$1.9 million in cash paid at closing. As part of the purchase price allocation, we recorded \$0.4 million in identifiable intangible assets and \$1.6 million in goodwill, which included a deferred tax adjustment of \$0.1 million. This acquisition consisted of 26 consulting professionals and has been included in the International Consulting segment.

Key Operating Metrics

We include the following metrics in order to provide additional operating information related to our business and reporting segments. These key operating metrics may not be comparable to similarly-titled metrics at other companies.

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

Consulting individuals assigned to client service who record time to client engagements;

Technology individuals assigned to client service who provide technology services and do not record time to specific client engagements; and

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

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

Average bill rate excluding performance based fees is calculated by dividing fee revenues before certain adjustments such as discounts and markups, by the number of hours associated with the fee revenue. Fee revenues and hours on performance based services and related to Technology FTE are excluded from average bill rate.

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Average utilization rate is calculated by dividing the number of hours of our Consulting FTE (which excludes Technology FTE) who recorded time to client engagements during a period, by the total available working hours for these consultants during the same period (1,850 hours).

Table of Contents

Billable hours are the number of hours our Consulting FTE (which excludes Technology FTE) recorded time to client engagements during the reporting period.

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

Prior period comparative metric data has been restated to be consistent with the current presentation. Restated metric data had no impact on reported financial information.

2011 Market Drivers

Our 2011 results were driven mainly by the following key areas:

Maturation of credit crisis related litigation

Government, regulatory and investigative actions

Global investigations and compliance issues (including Foreign Corruption Practices Act and Anti Money Laundering)

Increased mergers and acquisition related activities

Healthcare pricing and margin pressures

Healthcare reform forcing business model reviews and compliance pressures

Hospital challenges with physician integration

Energy efficiency, renewable and Smart Grid

Market modeling, rates and regulatory impacts

Demand side management, evaluation and program design

Energy performance improvement and benchmarking

Proliferation of data; custom software solutions and data analytics

Table of Contents**Results of Operations**

(Amounts in thousands, except per share data and metrics)	For the Year Ended December 31,			2011 over 2010	2010 over 2009
	2011	2010	2009	Increase (Decrease) Percentage	Increase (Decrease) Percentage
Revenues before reimbursements	\$ 695,714	\$ 623,461	\$ 636,748	11.6	(2.1)
Reimbursements	88,970	80,199	70,491	10.9	13.8
Total revenues	784,684	703,660	707,239	11.5	(0.5)
Cost of services before reimbursable expenses	467,045	418,523	416,545	11.6	0.5
Reimbursable expenses	88,970	80,199	70,491	10.9	13.8
Total cost of services	556,015	498,722	487,036	11.5	2.4
General and administrative expenses	130,415	121,685	129,048	7.2	(5.7)
Depreciation expense	13,303	14,457	17,600	(8.0)	(17.9)
Amortization expense	8,658	12,368	13,014	(30.0)	(5.0)
Other operating costs (benefit):					
Office consolidation		(900)	8,810	100.0	(110.2)
Intangible assets impairment		7,307		(100.0)	100.0
Operating income	76,293	50,021	51,731	52.5	(3.3)
Interest expense	7,292	10,704	15,076	(31.9)	(29.0)
Interest income	(1,447)	(1,309)	(1,211)	10.5	8.1
Other income, net	(279)	(567)	(182)	(50.8)	211.5
Income before income tax expense	70,727	41,193	38,048	71.7	8.3
Income tax expense	29,597	17,136	16,101	72.7	6.4
Net income	\$ 41,130	\$ 24,057	\$ 21,947	71.0	9.6
Basic net income per share	\$ 0.81	\$ 0.49	\$ 0.46	65.3	6.5
Shares used in computing income per basic share	50,820	49,405	48,184	2.9	2.5
Diluted net income per share	\$ 0.80	\$ 0.48	\$ 0.44	66.7	9.1
Shares used in computing income per diluted share	51,371	50,447	49,795	1.8	1.3
Key operating metrics:					
Average FTE					
Consulting	1,782	1,683	1,797	5.9	(6.3)
Technology	36	4		800.0	100.0
Non-billable	527	518	539	1.7	(3.9)
Period End FTE					
Consulting	1,827	1,759	1,666	3.9	5.6
Technology	55	20		175.0	100.0
Non-billable	527	528	511	(0.2)	3.3
Average Bill Rate (excluding performance based fees)	\$ 274	\$ 266	\$ 254	3.0	4.7
Utilization	78%	74%	75%	5.4	(1.3)

Table of Contents**Results for the year ended December 31, 2011 compared to the year ended December 31, 2010**

Revenues before Reimbursements. Revenues before reimbursements increased by 11.6% in 2011 compared to 2010. The increase was primarily due to improvements driven by strength in the Business Consulting Services segment (which includes our Energy and Healthcare operating segments) as well as improved performances in the Disputes and Investigative Services segment and the International Consulting segment. Incremental revenue from our acquisitions, an increase in performance based fees and increased senior hiring contributed to the improved performance. Including the impact of our acquisitions on a pro forma basis, revenues before reimbursements would have increased approximately 5.0%. 2011 consultant utilization improved to 78% from 74% in 2010, while average billable FTE s increased to 1,818 compared to 1,687 in 2010. Average bill rate (excluding performance based fees) was \$274 for 2011, up 3.0% from \$266 in 2010. For the years ended 2011 and 2010, performance based fees were \$17.7 million and \$8.3 million, respectively. The increase in performance based fees was driven mainly by successes in our restructuring and healthcare practices within the Business Consulting Services segment.

Cost of Services before Reimbursable Expenses. Cost of services before reimbursable expenses increased 11.6% in 2011 compared to 2010. The increased cost of services was mainly due to higher performance based incentive compensation, wages and benefits increasing with headcount and, overall, solid revenue growth and improvement in our operating results. In addition, amortization of certain recruiting incentives, retention and performance based incentives were higher in 2011 mainly due to 2010 and 2011 senior level hires. These increases were partially offset by lower consultant severance costs which were \$2.6 million and \$5.5 million for the years ended 2011 and 2010, respectively.

General and Administrative Expenses. General and administrative expenses increased by \$8.7 million, or 7.2%, in 2011 compared to 2010. Consistent with our improved financial performance, higher incentive compensation expense, along with rising information technology costs and additional costs related to acquisitions, drove most of the increase and was partially offset by lower bad debt expense, which decreased 15.8% from 2010. Average general and administrative FTE s were up 2.8% while supporting 100 additional consulting FTE s. Bad debt expense decreases resulted from the improved collection of our accounts receivable. Our days sales outstanding at December 31, 2011 and 2010 were 76 and 81, respectively. Our allowance for doubtful accounts receivable is based on historical experience and management judgment and may change based on market conditions or specific client circumstances.

General and administrative expenses declined to 18.7% in 2011 from 19.5% of revenues before reimbursements in 2010. The decrease as a percentage of revenues before reimbursements primarily reflected the improvement of our bad debt expense and the impact of our office consolidation efforts.

Other Operating Costs (Benefit) Office Consolidation. During 2010, we re-occupied one floor of office space at one of our New York locations in connection with expanded business subsequent to our second quarter 2010 acquisition of Daylight. As a result, we reversed \$1.5 million of the accrual for future rent obligation and recorded a benefit to other operating costs. In addition, we recorded additional costs of \$0.6 million to increase our reserves for future rent obligations for one of our abandoned Chicago office spaces as a result of continued weak sublease market conditions.

Other Operating Costs (Benefit) Intangible Assets Impairment. During 2010, we recorded an intangible assets impairment charge of \$7.3 million related to customer lists and relationships and non-compete agreements in two markets within our International Consulting segment.

Depreciation Expense. The decrease in depreciation expense of 8.0% for 2011 compared to 2010 was primarily due to the full depreciation of certain assets and relatively lower spending on property and equipment in recent years.

Amortization Expense. Amortization decreased by \$3.7 million, or 30.0% in 2011 compared to 2010. This was due to reduced amortization associated with certain intangible assets within our International Consulting segment which were subject to an impairment charge recorded during the three months ended December 31, 2010. In addition certain intangible assets became fully amortized as their useful lives came to term. This decrease was partially offset by increased amortization relating to our recent acquisitions.

Table of Contents