NAVIGANT CONSULTING INC
Form 10-Q
July 29, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

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)

Delaware	**36-4094854**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606

(Address of principal executive offices, including zip code)

(312) 573-5600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x 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 x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of July 27, 2015, 47,894,058 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, intend, estimate, expect, plan, outlook and similar expressions. We caution rea there may be events in the future that we are not able to accurately predict or control and the information contained in the forward-looking statements is inherently uncertain and subject to a number of risks that could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the factors described in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 and Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report. We cannot guarantee any future results, levels of activity, performance or achievement, and we undertake no obligation to update any of the forward-looking statements contained in this report.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	June 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,854	$ 2,648
Accounts receivable, net	223,717	187,652
Prepaid expenses and other current assets	28,923	27,142
Deferred income tax assets	13,683	13,455
Total current assets	270,177	230,897
Non-current assets:		
Property and equipment, net	72,496	60,617
Intangible assets, net	28,929	26,502
Goodwill	582,836	568,091
Other assets	19,547	17,386
Total assets	$ 973,985	$ 903,493
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 11,951	$ 11,735
Accrued liabilities	12,208	11,311
Accrued compensation-related costs	60,118	83,061
Income tax payable	3,132	1,763
Other current liabilities	40,402	52,526
Total current liabilities	127,811	160,396
Non-current liabilities:		
Deferred income tax liabilities	81,194	76,329
Other non-current liabilities	20,084	14,387
Bank debt non-current	171,386	109,790

Total non-current liabilities	272,664	200,506
Total liabilities	400,475	360,902
Stockholders equity:		
Common stock	64	64
Additional paid-in capital	622,260	611,882
Treasury stock	(287,684)	(275,608)
Retained earnings	251,307	218,337
Accumulated other comprehensive loss	(12,437)	(12,084)
Total stockholders equity	573,510	542,591
Total liabilities and stockholders equity	$ 973,985	$ 903,493

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share data)

	For the three months ended June 30, 2015	For the three months ended June 30, 2014	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Revenues before reimbursements	$ 211,023	$ 186,504	$ 412,179	$ 361,560
Reimbursements	22,416	21,593	44,431	44,285
Total revenues	233,439	208,097	456,610	405,845
Cost of services before reimbursable expenses	145,367	126,792	283,968	246,920
Reimbursable expenses	22,416	21,593	44,431	44,285
Total costs of services	167,783	148,385	328,399	291,205
General and administrative expenses	39,068	34,237	74,733	67,339
Depreciation expense	5,724	4,953	11,079	9,262
Amortization expense	2,297	1,633	4,566	2,995
Other operating costs (benefit):				
Contingent acquisition liability adjustments, net	2,308	(2,444)	(12,625)	(3,604)
Office consolidation, net	1,804		2,740	
Goodwill impairment		122,045		122,045
Other impairment	98	204	98	204
Operating income (loss)	14,357	(100,916)	47,620	(83,601)
Interest expense	1,238	1,397	2,970	2,235
Interest income	(46)	(71)	(101)	(160)
Other (income) expense, net	176	186	(152)	268
Income (loss) from continuing operations before income tax (benefit) expense	12,989	(102,428)	44,903	(85,944)
Income tax (benefit) expense	5,162	(26,569)	11,933	(20,455)
Net income (loss) from continuing operations	7,827	(75,859)	32,970	(65,489)
Income from discontinued operations, net of tax				509
Net income (loss)	$ 7,827	$ (75,859)	$ 32,970	$ (64,980)
Basic per share data				
Net income (loss) from continuing operations	$ 0.16	$ (1.55)	$ 0.68	$ (1.34)
Income from discontinued operations, net of tax				0.01
Net income (loss)	$ 0.16	$ (1.55)	$ 0.68	$ (1.33)

Shares used in computing basic per share data		48,150		48,971		48,137		48,917
Diluted per share data								
Net income (loss) from continuing operations	$	0.16	$	(1.55)	$	0.67	$	(1.34)
Income from discontinued operations, net of tax								0.01
Net income (loss)	$	0.16	$	(1.55)	$	0.67	$	(1.33)
Shares used in computing diluted per share data		49,310		48,971		49,369		48,917
Net income (loss)	$	7,827	$	(75,859)	$	32,970	$	(64,980)
Other comprehensive income (loss), net of tax								
Unrealized net gain (loss), foreign currency translation		2,834		786		(244)		692
Unrealized net loss on interest rate derivatives		(46)		(14)		(264)		(34)
Reclassification adjustment on interest rate derivatives included in interest expense and income tax expense		80		39		155		77
Other comprehensive income (loss), net of tax		2,868		811		(353)		735
Total comprehensive income (loss), net of tax	$	10,695	$	(75,048)	$	32,617	$	(64,245)

See accompanying notes to unaudited consolidated financial statements.

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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, 2014	63,708	(15,491)	$ 64	$ 611,882	$ (275,608)	$ (12,084)	$ 218,337	$ 542,591
Comprehensive income (loss)						(353)	32,970	32,617
Issuances of common stock	412			4,894				4,894
Tax benefits on stock options exercised and restricted stock units vested				239				239
Vesting of restricted stock and restricted stock units, net of forfeitures and tax withholdings	246			(1,571)	5			(1,566)
Share-based compensation expense				5,524				5,524
Additional paid-in capital recorded through compensation expense				1,292				1,292
Repurchases of common stock		(848)			(12,081)			(12,081)
Balance at June 30, 2015	64,366	(16,339)	$ 64	$ 622,260	$ (287,684)	$ (12,437)	$ 251,307	$ 573,510

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the six months ended June 30, 2015	2014
Cash flows from operating activities:		
Net income (loss)	$ 32,970	$ (64,980)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation expense	11,079	9,262
Accelerated depreciation - office consolidation	139	
Amortization expense	4,566	2,995
Amortization expense - client-facing software	486	242
Share-based compensation expense	5,524	5,236
Accretion of interest expense	1,135	654
Deferred income taxes	4,686	(24,395)
Allowance for doubtful accounts receivable	1,592	2,784
Contingent acquisition liability adjustments, net	(12,625)	(3,604)
Gain on disposition of discontinued operations		(509)
Goodwill impairment		122,045
Other impairment	98	204
Changes in assets and liabilities (net of acquisitions and dispositions):		
Accounts receivable	(36,747)	(29,293)
Prepaid expenses and other assets	(2,361)	141
Accounts payable	136	(4,216)
Accrued liabilities	1,444	(1,695)
Accrued compensation-related costs	(22,896)	(21,619)
Income taxes payable	46	(837)
Other liabilities	5,923	(4,879)
Net cash used in operating activities	(4,805)	(12,464)
Cash flows from investing activities:		
Purchases of property and equipment	(23,197)	(10,942)
Acquisitions of businesses, net of cash acquired	(21,379)	(84,834)
Proceeds from dispositions, net of selling costs		824
Payments of acquisition liabilities	(1,530)	(443)
Capitalized client-facing software	(346)	(864)
Net cash used in investing activities	(46,452)	(96,259)
Cash flows from financing activities:		
Issuances of common stock	4,894	1,535
Repurchases of common stock	(12,081)	(14,427)

Payments of contingent acquisition liabilities		(107)
Repayments to banks	(138,703)	(156,895)
Borrowings from banks	199,643	288,774
Other, net	(1,247)	(2,281)
Net cash provided by financing activities	52,506	116,599
Effect of exchange rate changes on cash and cash equivalents	(43)	8
Net increase in cash and cash equivalents	1,206	7,884
Cash and cash equivalents at beginning of the period	2,648	1,968
Cash and cash equivalents at end of the period	$ 3,854	$ 9,852

Supplemental Consolidated Cash Flow Information

	For the six months ended June 30,			
	2015		2014	
Interest paid	$	1,543	$	1,192
Income taxes paid, net of refunds	$	7,275	$	3,236

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Navigant Consulting, Inc. (we, us, or our) is an independent specialized, global professional services firm that combines deep industry knowledge with technical expertise to enable companies to defend, protect and create value. We focus on industries and clients facing transformational change and significant regulatory and legal issues. We serve clients primarily in the healthcare, energy and financial services sectors which represent highly complex market and regulatory environments. Our professional service offerings include strategic, financial, operational, technology, risk management, compliance, investigative solutions, dispute resolution services and business process management services. We provide our services to companies, legal counsel and governmental agencies. Our business is organized in four reporting segments Disputes, Investigations & Economics; Financial, Risk & Compliance; Healthcare; and Energy.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim reporting and do not include all of the information and 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 six months ended June 30, 2015 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2015.

These unaudited interim 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, 2014 included in our Annual Report on Form 10-K filed with the SEC on February 13, 2015 (2014 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.

2. ACQUISITIONS

2015 Acquisitions

On February 23, 2015, we acquired RevenueMed, Inc. to expand our healthcare business. RevenueMed specializes in providing coding, revenue cycle management, and business process management services to healthcare providers. This acquisition included approximately 1,500 professionals primarily located in India and was integrated into the Technology, Data & Process business within our Healthcare segment. We paid $22.1 million, including selling costs, in cash at closing. The purchase agreement provided for a deferred contingent acquisition payment to be made to the selling stockholders of RevenueMed in an amount up to $4.0 million based on the business achieving certain performance targets over the period beginning January 1, 2015 and ending June 30, 2015 pursuant to the terms of the purchase agreement. We estimated the fair value of the deferred contingent consideration on the closing date to be \$3.8 million which was recorded in other current liabilities at net present value using a risk-adjusted discount rate. Based on the acquired business operating results during the performance period, the maximum earned amount was achieved. As such, during the three months ended June 30, 2015, we recorded \$0.2 million of other operating costs reflecting a fair value adjustment to increase the estimated deferred contingent consideration to \$4.0 million. As part of our preliminary purchase price allocation, we recorded \$7.0 million in identifiable intangible assets, \$14.9 million in goodwill, \$1.4 million of internally developed software and other net assets of \$2.6 million. Other net assets included a liability for uncertain tax positions of \$1.3 million, and based on the indemnification terms of the purchase agreement, which entitles us to indemnification if tax is due, an offsetting receivable from RevenueMed was recorded. We are still in the process of finalizing our purchase price allocation and the assumptions used to determine the fair value of the intangible assets. In addition, as we complete our review, we may come across additional closing date adjustments not currently recognized in the unaudited consolidated financial statements. These adjustments may revise our preliminary purchase price allocation. Post-acquisition adjustments relating to facts and circumstances at the closing date, if any, will be recorded to goodwill when identified for a period not exceeding 12 months.

2014 Acquisitions

On May 14, 2014, we acquired Cymetrix Corporation to expand our healthcare business. Cymetrix specializes in providing business process management services to hospital and healthcare networks. This acquisition included approximately 600 professionals and was integrated into the Technology, Data & Process business within our Healthcare segment. We paid \$76.9 million, including selling costs, in cash at closing. The terms of the original agreement, included deferred contingent consideration to be paid to the selling stockholders of Cymetrix of up to \$25.0 million based on the business achieving certain performance targets over the period beginning November 1, 2014 and ending October 31, 2015. The deferred contingent consideration fair value was estimated on the closing date to be \$20.3 million which was recorded in other non-current liabilities at net present value using a risk-adjusted discount rate. During the three months ended March 31, 2015, we recorded $15.4 million of other operating benefit reflecting a fair value adjustment (see Note 12 Fair Value). On May 15, 2015, we signed an amendment to the original agreement which effectively changed the deferred contingent consideration to a fixed cash payment of $10.0 million to be paid on or before December 31, 2015. During the three months ended June 30, 2015, we removed the contingency and recorded $2.1 million of other operating costs reflecting a fair value adjustment. This resulted in a definitive deferred acquisition liability of $10.0 million. The final purchase price allocation for the Cymetrix acquisition was as follows (in thousands):

Cash	$ 1,357
Accounts receivable, net	11,283
Other current assets	1,563
Property and equipment, net	11,824
Goodwill	71,264
Intangible assets	18,000
Total assets	$ 115,291
Total liabilities	$ 36,924

The beginning fair value balance of the Cymetrix intangible assets consisted of the following (amounts in thousands, except year data):

Category	Useful Life (years)	Amount
Trade name	4.0	$ 1,900
Customer lists and relationships	8.3	16,100
		$ 18,000

Also, during 2014, we acquired three small businesses, Leerink Swann Consulting (Leerink) in April 2014, HLP Consulting PTE. LTD (HLP) in June 2014 and Assay Healthcare Solutions, LLC (Assay) in August 2014 for an aggregate purchase price of $11.8 million, of which $9.3 million was paid in cash at closing. Leerink and Assay were integrated into our Healthcare segment, and HLP was integrated into our Disputes, Investigations & Economics segment.

See Note 12 Fair Value for additional information regarding deferred contingent consideration fair value adjustments.

Pro Forma Information

The following supplemental unaudited pro forma financial information was prepared as if the 2015 and 2014 acquisitions noted above had occurred as of January 1, 2014. The following table was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future (in thousands, except per share data).

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Total revenues	$ 233,439	$ 219,875	$ 458,727	$ 437,386
Net income (loss) from continuing operations	$ 7,827	$ (75,805)	$ 32,908	$ (65,881)
Basic net income from continuing operations per basic share	$ 0.16	$ (1.55)	$ 0.68	$ (1.35)
Shares used in computing net income per basic share	48,150	48,971	48,137	48,917
Diluted net income from continuing operations per diluted share	$ 0.16	$ (1.55)	$ 0.67	$ (1.35)
Shares used in computing net income per diluted share	49,310	48,971	49,369	48,917

3. DISPOSITIONS

On October 1, 2014, we sold a portion of our Technology, Data & Process business within our Healthcare segment. We received $1.5 million in cash, net of selling costs, for the sale. As part of the transaction, we recorded a $0.5 million gain in other operating

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costs (benefit), which reflected a reduction of $0.8 million in goodwill, $0.1 million in intangible assets, and $0.2 million in other assets. The Technology, Data & Process business within our Healthcare segment remains a continuing operation and, as such, this transaction did not qualify as discontinued operations.

4. SEGMENT INFORMATION

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

The **Disputes, Investigations & Economics** segment provides accounting, financial and economic analysis, as well as discovery support, data management and analytics, on a wide range of legal and business issues including disputes, investigations and regulatory matters. The clients of this segment are principally companies, along with their in-house counsel and law firms, as well as accounting firms, corporate boards and government agencies.

The **Financial, Risk & Compliance** segment provides strategic, operational, valuation, risk management, investigative and compliance consulting to clients in the highly regulated financial services industry, including major financial and insurance institutions. This segment also provides anti-corruption solutions and anti-money laundering, valuation and restructuring consulting, litigation support and tax compliance services to clients in a broad variety of industries.

The **Healthcare** segment provides strategic, operational, performance improvement and business process management services which includes solutions to clients across the healthcare landscape including health systems, physician practice groups, health insurance providers, government and life sciences companies. We assist clients on issues such as the shift to an outcomes and value-based reimbursements model, ongoing industry consolidation and reorganization, the required implementation of a new medical coding system and the implications of maximizing the effects of revenue cycle management.

The **Energy** segment provides management advisory services to utility, government and commercial clients. We focus on creating value for our clients by assisting in their implementation of new business models and creating sustainable excellence on issues ranging from asset investment management, integrated resource planning, renewables, distributed generation, energy efficiency and outage management and restoration.

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 costs 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 segments been stand-alone businesses.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Revenues before reimbursements:				
Disputes, Investigations & Economics	$ 81,116	$ 76,294	$ 157,709	$ 152,326
Financial, Risk & Compliance	29,509	32,193	64,452	63,604
Healthcare	74,245	54,446	138,239	99,181
Energy	26,153	23,571	51,779	46,449
Total revenues before reimbursements	$ 211,023	$ 186,504	$ 412,179	$ 361,560
Total revenues:				
Disputes, Investigations & Economics	$ 87,515	$ 82,444	$ 168,726	$ 164,528
Financial, Risk & Compliance	34,439	38,224	76,739	76,222
Healthcare	80,652	60,476	149,981	110,842
Energy	30,833	26,953	61,164	54,253
Total revenues	$ 233,439	$ 208,097	$ 456,610	$ 405,845
Segment operating profit:				
Disputes, Investigations & Economics	$ 25,721	$ 26,213	$ 49,990	$ 50,931
Financial, Risk & Compliance	11,201	13,541	26,271	27,009
Healthcare	24,726	15,475	42,982	29,504
Energy	7,513	7,009	15,435	13,496
Total segment operating profit	69,161	62,238	134,678	120,940
Segment reconciliation to income (loss) from continuing operations before income tax expense:				
Reconciling items:				
General and administrative expenses	39,068	34,237	74,733	67,339
Depreciation expense	5,724	4,953	11,079	9,262
Amortization expense	2,297	1,633	4,566	2,995
Other operating costs (benefit), net	4,210	119,805	(9,787)	118,645
Long-term compensation expense attributable to client-service employees (including share-based compensation expense)	3,505	2,526	6,467	6,300
Operating income (loss)	14,357	(100,916)	47,620	(83,601)
Interest and other expense, net	1,368	1,512	2,717	2,343

Income (loss) from continuing operations before income tax expense	$ 12,989	$ (102,428)	$ 44,903	$ (85,944)

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 (in thousands):

	June 30, 2015	**December 31, 2014**
Disputes, Investigations & Economics	$ 344,902	$ 322,014
Financial, Risk & Compliance	90,523	83,834
Healthcare	314,721	289,229
Energy	105,538	103,218
Unallocated assets	118,301	105,198
Total assets	$ 973,985	$ 903,493

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5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill consisted of (in thousands):

	June 30, 2015	December 31, 2014
Goodwill	$ 710,306	$ 695,561
Less - accumulated amortization	(5,425)	(5,425)
Less - accumulated goodwill impairment	(122,045)	(122,045)
Goodwill, net	$ 582,836	$ 568,091

Changes made to our goodwill balances during the six months ended June 30, 2015 and 2014 were as follows (in thousands):

	Disputes, Investigations & Economics	Financial, Risk & Compliance	Healthcare	Energy	Total Company
Goodwill, net as of January 1, 2014	$ 354,221	$ 55,330	$ 129,191	$ 76,601	$ 615,343
Acquisitions	3,100		74,724		77,824
Impairment	(122,045)				(122,045)
Adjustments	(78)	(17)	(6)		(101)
Foreign currency	852	(14)		4	842
Goodwill, net as of June 30, 2014	$ 236,050	$ 55,299	$ 203,909	$ 76,605	$ 571,863
Goodwill, net as of January 1, 2015	231,730	55,320	204,469	76,572	568,091
Acquisitions			14,854		14,854
Adjustments	(77)	(18)	(6)		(101)
Foreign currency	(75)	44	(4)	27	(8)
Goodwill, net as of June 30, 2015	$ 231,578	$ 55,346	$ 219,313	$ 76,599	$ 582,836

We performed our annual goodwill impairment test as of May 31, 2015 (see Note 2   Summary of Significant Accounting Policies in our 2014 10-K). The key assumptions included: internal projections completed during our most recent quarterly forecasting process; profit margin improvement generally consistent with our longer-term historical performance; assumptions regarding contingent revenue; revenue growth rates consistent with our longer-term historical performance also considering our near term investment plans and growth objectives; discount rates that were determined based on comparable discount rates for our peer group; company specific risk considerations; and cost of capital based on our historical experience. Each reporting unit s estimated fair value depends on various factors including its expected ability to achieve profitable growth.

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, 2015. Accordingly, there was no indication of impairment of our goodwill for any of our reporting units. As of May 31, 2015, the estimated fair value of our Disputes, Investigations & Economics, Healthcare, Energy and Financial, Risk & Compliance reporting units exceeded their net asset carrying values by 16%, 25%, 32% and 61%, respectively. 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 on May 31, 2016.

In the prior year annual impairment test, the estimated fair value of our Disputes, Investigations & Economics reporting unit was less than its net asset carrying value by approximately 1% as of May 31, 2014. As such, we performed the second step of the goodwill impairment test on this reporting unit, and based on the result in May 2014, a pre-tax goodwill impairment of $122.0 million was recorded as a separate line item within other operating costs (benefit) during the three months ended June 30, 2014. The impairment was non-cash in nature and did not affect our liquidity, cash flows, borrowing capability or operations, nor did it impact the debt covenants under our credit agreement. For further information regarding the impairment, see Note 6 Goodwill and Intangible Assets, Net in our 2014 10-K.

As we review our portfolio of services in the future, we may exit certain markets or reposition certain service offerings within our business. Consistent with past evaluations, further evaluations may result in redefining our operating segments and may impact a significant portion of one or more of our reporting units. If such actions occur, they may be considered triggering events that would result in our performing an interim impairment test of our goodwill and an impairment test of our intangible assets.

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Intangible assets consisted of (in thousands):

	June 30, 2015	December 31, 2014
Intangible assets:		
Customer lists and relationships	$ 101,722	$ 95,616
Non-compete agreements	23,072	22,326
Other	26,188	26,520
Intangible assets, at cost	150,982	144,462
Less: accumulated amortization	(122,053)	(117,960)
Intangible assets, net	$ 28,929	$ 26,502

Our intangible assets have estimated remaining useful lives ranging up to ten 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 June 30, 2015, our intangible assets consisted of the following (in thousands, except year data):

Category	Weighted Average Remaining Years	Amount
Customer lists and relationships, net	7.0	$ 24,348
Non-compete agreements, net	3.7	1,947
Other intangible assets, net	2.8	2,634
Total intangible assets, net	6.4	$ 28,929

Total amortization expense was $4.6 million and $3.0 million for the six months ended June 30, 2015 and 2014, respectively. Below is the estimated annual aggregate amortization expense to be recorded in future periods related to intangible assets at June 30, 2015 (in thousands):

Year Ending December 31,	Amount
2015 (July-December)	$ 4,764
2016	7,251
2017	5,344
2018	3,864
2019	2,590
Thereafter	5,116
Total	$ 28,929

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6. NET INCOME PER SHARE (EPS)

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Basic shares	48,150	48,971	48,137	48,917
Employee stock options	88		108	
Restricted stock and restricted stock units	1,019		1,043	
Contingently issuable shares	53		81	
Diluted shares	49,310	48,971	49,369	48,917
Antidilutive shares[1]	304	1,283	243	1,452

(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.

Due to a net loss applicable to common stockholders for the three and six months ended June 30, 2014, we excluded 1,107,060 and 1,339,087 shares, respectively, in potentially dilutive securities from the computation as their effect would be anti-dilutive.

7. SHARE-BASED COMPENSATION EXPENSE

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

The following table shows the amounts attributable to each category (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Amortization of restricted stock and restricted stock unit awards	$ 3,163	$ 2,274	$ 4,989	$ 4,682
Amortization of stock option awards	203	193	373	386
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	54	55	162	168
Total share-based compensation expense	$ 3,420	$ 2,522	$ 5,524	$ 5,236

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

	For the three months ended June 30,		For the six months ended June 30,	
	2015	2014	2015	2014
Cost of services before reimbursable expenses	$ 2,232	$ 1,183	$ 3,367	$ 2,625
General and administrative expenses	1,188	1,339	2,157	2,611
Total share-based compensation expense	$ 3,420	$ 2,522	$ 5,524	$ 5,236

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. Amounts are presented on a continuing operations basis.

At June 30, 2015, we had $17.4 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 six months ended June 30, 2015, we granted an aggregate of 1,060,786 share-based awards, consisting of restricted stock units and stock options with an aggregate fair value of $13.3 million at the time of grant. These grants include certain awards that vest based on relative achievement of pre-established performance criteria.

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8. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

Accounts Receivable, net

The components of accounts receivable were as follows (in thousands):

	June 30, 2015	December 31, 2014
Billed amounts	$ 144,683	$ 135,787
Engagements in process	101,907	69,704
Allowance for uncollectible billed amounts	(10,946)	(10,847)
Allowance for uncollectible engagements in process	(11,927)	(6,992)
Accounts receivable, net	$ 223,717	$ 187,652

Receivables attributable to engagements in process represent balances for services that have been performed and earned but have not been billed to the client. Services are generally billed on a monthly basis for the prior month s services. Our allowance for uncollectible accounts is based on historical experience and management judgment and may change based on market conditions or specific client circumstances.

Prepaid Expenses and Other Current Assets

The components of prepaid expenses and other current assets were as follows (in thousands):

	June 30, 2015	December 31, 2014
Notes receivable - current	$ 3,139	$ 3,701
Prepaid recruiting and retention incentives - current	9,227	8,633
Other prepaid expenses and other current assets	16,557	14,808
Prepaid expenses and other current assets	$ 28,923	$ 27,142

Other Assets

The components of other assets were as follows (in thousands):

	June 30, 2015	December 31, 2014
Notes receivable - non-current	$ 3,421	$ 3,401
Capitalized client-facing software	1,560	2,163
Prepaid recruiting and retention incentives - non-current	11,047	7,482
Prepaid expenses and other non-current assets	3,519	4,340

Other assets	$ 19,547	$ 17,386

Notes receivable, current and non-current, represent unsecured employee loans. These loans were issued to recruit or retain certain senior-level client-service employees. During the six months ended June 30, 2015, we issued unsecured employee loans aggregating $2.1 million, and during the six months ended June 30, 2014 no such loans were issued. The principal amount and accrued interest on these loans is either paid by the employee or forgiven by us over the term of the loans so long as the employee remains continuously employed by us and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans is amortized as compensation expense over the service period, which is consistent with the term of the loans.

Capitalized client-facing software is used by our clients as part of client engagements. These amounts are amortized into cost of services before reimbursable expenses over their estimated remaining useful life. During the six months ended June 30, 2015 and 2014, we capitalized or acquired $0.3 million and $2.4 million, respectively, in capitalized client-facing software. In addition, during the six months ended June 30, 2015, we transferred $0.5 million of developed software from capitalized client-facing software included in other assets into property and equipment, net due to a change in scope for its use.

Prepaid recruiting and retention incentives, current and non-current, include sign-on and retention bonuses that are generally recoverable from an employee if the employee voluntarily terminates employment or if the employee s employment is terminated for cause prior to fulfilling his or her obligations to us. These amounts are amortized as compensation expense over the period in which they are recoverable from the employee, generally in periods up to six years. During the six months ended June 30, 2015 and 2014, we granted $11.3 million and $7.8 million, respectively, of sign-on and retention bonuses, which have been included in current and non-current prepaid recruiting and retention incentives.

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Property and Equipment, net

Property and equipment, net consisted of (in thousands):

	June 30, 2015	December 31, 2014
Furniture, fixtures and equipment	$ 70,028	$ 65,077
Software	72,175	65,410
Leasehold improvements	37,662	33,807
Property and equipment, at cost	179,865	164,294
Less: accumulated depreciation and amortization	(107,369)	(103,677)
Property and equipment, net	$ 72,496	$ 60,617

During the six months ended June 30, 2015, we invested $23.2 million in property and equipment which included $9.8 million in our technology infrastructure and software of which $2.1 million was previously accrued, and $11.2 million in leasehold improvements mainly relating to the build-out of our new consolidated office space located in New York, New York. During the six months ended June 30, 2015 we disposed of $7.9 million in fully depreciated assets. In addition, we acquired $2.3 million in property and equipment relating to our RevenueMed acquisition and transferred $0.5 million of developed software from capitalized client-facing software included in other assets into property and equipment, net due to a change in scope for its use.

Other Current Liabilities

The components of other current liabilities were as follows (in thousands):

	June 30, 2015	December 31, 2014
Deferred acquisition liabilities	$ 17,273	$ 26,202
Deferred revenue	16,497	16,405
Deferred rent - short term	2,757	3,006
Other current liabilities	3,875	6,913
Total other current liabilities	$ 40,402	$ 52,526

Deferred acquisition liabilities at June 30, 2015 consisted of cash obligations related to definitive and contingent purchase price considerations recorded at net present value and fair value, respectively. During the six months ended June 30, 2015, we reduced the deferred contingent acquisition liabilities by $12.6 million relating to net fair value adjustments and added $3.8 million in deferred contingent acquisition liabilities relating to the RevenueMed acquisition (see Note 2 Acquisitions and Note 12 Fair Value).

The current portion of deferred rent relates to rent allowances and incentives on lease arrangements for our office facilities that expire at various dates through 2025.

Deferred revenue represents advance billings to our clients for services that have not yet been performed and earned.

Other Non-Current Liabilities

The components of other non-current liabilities were as follows (in thousands):

	June 30, 2015	December 31, 2014
Deferred acquisition liabilities	$ 1,400	$ 1,760
Deferred rent - long term	13,365	9,015
Other non-current liabilities	5,319	3,612
Total other non-current liabilities	$ 20,084	$ 14,387

Deferred acquisition liabilities at June 30, 2015 consisted of cash obligations related to definitive and contingent purchase price considerations recorded at net present value and fair value, respectively.

The long-term portion of deferred rent relates to rent allowances and incentives on lease arrangements for our office facilities that expire at various dates through 2025.

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At June 30, 2015, other non-current liabilities included $0.8 million of performance-based long-term incentive compensation liabilities. As part of our long-term incentive plan, we issue restricted stock units which vest three years from the grant date to select senior-level client-service employees and leaders based on the achievement of certain performance targets during the prior year.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the activity in accumulated other comprehensive loss (in thousands):

	For the three months ended June 30,		For the six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Unrealized gain (loss) on foreign exchange:				
Balance at beginning of period	$ (15,051)	$ (9,223)	$ (11,973)	$ (9,129)
Unrealized gain (loss) on foreign exchange	2,834	786	(244)	692
Balance at end of period	$ (12,217)	$ (8,437)	$ (12,217)	$ (8,437)
Unrealized gain (loss) on derivatives:				
Balance at beginning of period	$ (254)	$ (194)	$ (111)	$ (212)
Unrealized loss on derivatives, net of reclassification	(46)	(14)	(264)	(34)
Reclassified to interest expense	134	65	259	128
Income tax expense	(54)	(26)	(104)	(51)
Balance at end of period	$ (220)	$ (169)	$ (220)	$ (169)
	2015	**2014**	**2015**	**2014**
Accumulated other comprehensive loss at June 30,	$ (12,437)	$ (8,606)	$ (12,437)	$ (8,606)

10. DERIVATIVES AND HEDGING ACTIVITY

During the six months ended June 30, 2015, the following interest rate derivatives were outstanding (summarized based on month of execution):

Month executed	Number of Contracts	Beginning Date	Maturity Date	Rate	Total Notional Amount (millions)
December 2011	2	December 31, 2012	December 31, 2015	1.17%	$ 10.0
May 2012	1	June 28, 2013	May 27, 2016	1.15%	$ 5.0
July 2014	5	July 11, 2014	July 11, 2017	1.10%	$ 30.0

March 2015	1	May 29, 2015	May 31, 2018	1.47%	$	10.0
June 2015	1	June 30, 2015	June 30, 2018	1.40%	$	5.0

We expect the interest rate derivatives to be highly effective against changes in cash flows related to changes in interest rates and have recorded the derivatives as a cash flow hedge. As a result, gains or losses related to fluctuations in the fair value of the interest rate derivatives are recorded as a component of accumulated other comprehensive loss and reclassified into interest expense as the variable interest expense on our bank debt is recorded. There was no ineffectiveness related to the interest rate derivatives during the six months ended June 30, 2015. For the six months ended June 30, 2015 and 2014, we recorded $0.3 million and $0.1 million, respectively, in interest expense associated with differentials received or paid under the interest rate derivatives.

At June 30, 2015, we had $0.4 million of net liability related to the interest rate derivatives.

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11. BANK DEBT

Our credit agreement provides a $400.0 million revolving credit facility. At our option, subject to the terms and conditions specified in the credit agreement, we may elect to increase commitments under the credit facility up to an aggregate amount of $500.0 million. The credit facility becomes due and payable in full upon maturity in September 2018. Borrowings and repayments under the credit facility may be made in multiple currencies including U.S. Dollars, Canadian Dollars, United Kingdom Pound Sterling and Euro.

At June 30, 2015, we had aggregate borrowings outstanding of $171.4 million, compared to $109.8 million at December 31, 2014. Based on our financial covenants at June 30, 2015, approximately $217.0 million in additional borrowings were available to us under the credit facility. At June 30, 2015 we had $7.6 million of unused letters of credit under our credit facility, which have been included as a reduction in the available borrowings above. The letters of credit are primarily related to the requirements of certain lease agreements for office space.

At our option, borrowings under the credit facility bear interest at a variable rate equal to an applicable base rate or LIBOR, in each case plus an applicable margin. For LIBOR loans, the applicable margin varies depending upon our consolidated leverage ratio (the ratio of total funded debt to adjusted EBITDA, as defined in the credit agreement). At June 30, 2015, the applicable margins on LIBOR and base rate loans were 1.00% and 0.00%, respectively. Depending upon our performance and financial condition, our LIBOR loans will have applicable margins varying between 1.00% and 2.00%, and our base rate loans have applicable margins varying between zero and 1.00%. Our average borrowing rate (including the impact of our interest rate derivatives; see Note 10 Derivatives and Hedging Activity) was 2.0% for the three months ended June 30, 2015 and 2014, and 2.2% and 2.4% for the six months ended June 30, 2015 and 2014, respectively.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.25:1 (except for the first quarter of each calendar year when the covenant requires us to maintain a consolidated leverage ratio of not greater than 3.5:1) and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBITDA (as defined in the credit agreement) and rental expense to the sum of cash interest expense and rental expense) of not less than 2.0:1. At June 30, 2015, under the definitions in the credit agreement, our consolidated leverage ratio was 1.3 and our consolidated interest coverage ratio was 5.1. In addition, the credit agreement contains customary affirmative and negative covenants (subject to customary exceptions), including covenants that limit our ability to incur liens or other encumbrances, make investments, incur indebtedness, enter into mergers, consolidations and asset sales, change the nature of our business and engage in transactions with affiliates, as well as customary provisions with respect to events of default. We were in compliance with the terms of our credit agreement at June 30, 2015; however, there can be no assurances that we will remain in compliance in the future.

12. FAIR VALUE

Fair value is defined as the price that would be received on the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The inputs used to measure fair value are classified into the following hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability

Level 3: Unobservable inputs for the asset or liability

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Our interest rate derivatives (see Note 10 Derivatives and Hedging Activity) are valued using counterparty quotations in over-the-counter markets. In addition, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk. The credit valuation adjustments associated with our interest rate derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by ourselves and our counterparties. However, at June 30, 2015, we assessed the significance of the impact on the overall valuation and believe that these adjustments are not significant. As such, our interest rate derivatives are classified within Level 2.

In certain instances our acquisitions provide for deferred contingent acquisition payments. These deferred payments are recorded at fair value at the time of acquisition and are included in other current and/or non-current liabilities on our consolidated balance sheets. We estimate the fair value of our deferred contingent acquisition liabilities using a probability-weighted discounted cash flow model. This fair value measure is based on significant inputs not observed in the market and thus represents a Level 3 measurement. Fair value measurements characterized within Level 3 of the fair value hierarchy are measured based on unobservable inputs that are supported by little or no market activity and reflect our own assumptions in measuring fair value.

The significant unobservable inputs used in the fair value measurements of our deferred contingent acquisition liabilities are our measures of the future profitability and related cash flows and discount rates. The fair value of the deferred contingent acquisition liabilities is reassessed on a quarterly basis based on assumptions provided to us by segment and business area leaders in conjunction

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with our business development and finance departments. Any change in the fair value estimate is recorded in the earnings of that period. During the six months ended June 30, 2015 and 2014, we recorded $12.6 million and $3.6 million, respectively, in other operating costs (benefit) for a net reduction in the liability reflecting changes in the fair value estimate of the contingent consideration for certain acquisitions made in 2014, 2013, and 2012 (see Note 2 Acquisitions). Also during the six months ended June 30, 2015, the contingent consideration liability related to the Cymetrix acquisition was reclassified as a definitive consideration liability (see Note 2 Acquisitions). The following table summarizes the changes in deferred contingent acquisition liabilities (in thousands):

	For the six months ended June 30, 2015	For the six months ended June 30, 2014
Beginning Balance	$ 23,272	$ 6,322
Acquisitions	3,765	20,285
Accretion of acquisition-related contingent consideration	1,063	531
Remeasurement of acquisition-related contingent consideration	(12,625)	(3,604)
Payments		(107)
Reclassification to definitive consideration liability	(10,000)	
Ending Balance	$ 5,475	$ 23,427

At June 30, 2015, the carrying value of our bank debt approximated fair value as it bears interest at variable rates. We consider the recorded value of our other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at June 30, 2015 based upon the short-term nature of the assets and liabilities.

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and December 31, 2014 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At June 30, 2015				
Interest rate derivatives, net	$	$ 364	$	$ 364
Deferred contingent acquisition liabilities	$	$	$ 5,475	$ 5,475
At December 31, 2014				
Interest rate derivatives, net	$	$ 184	$	$ 184
Deferred contingent acquisition liabilities	$	$	$ 23,272	$ 23,272

13. OTHER OPERATING COSTS (BENEFIT)

Contingent Acquisition Liability Adjustment, Net

During the three months ended June 30, 2015 we recorded a cost of $2.3 million, and during the three months ended June 30, 2014 we recorded a benefit of $2.4 million. On May 15, 2015, we signed an amendment to the merger agreement pursuant to which we acquired Cymetrix which effectively changed the deferred contingent consideration to be a fixed cash payment of $10.0 million to be paid on or before December 31, 2015. The remaining adjustments in both periods relate to fair value adjustments to our estimated contingent acquisition liabilities (see Note 12 Fair Value).

During the six months ended June 30, 2015 and 2014, we recorded a benefit of $12.6 million and $3.6 million, respectively, relating to fair value adjustments to our estimated deferred contingent acquisition liabilities (see Note 12 Fair Value). The adjustment made in 2015 relates primarily to our Cymetrix acquisition.

Contingent acquisition liabilities are initially estimated based on expected performance at the acquisition date and subsequently reviewed each quarter (see Note 12 Fair Value).

Office Consolidation, Net

During the three months ended June 30, 2015, we recorded a cost of $1.8 million related to our new consolidated office space located in New York, New York which we took possession of on October 22, 2014. The cost includes future rent expense, net of expected sublease income, accelerated depreciation and deferred rent relating to the old space and rent expense for duplicate rent as we occupied our old New York offices until completion of the build-out of the new space.

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During the six months ended June 30, 2015, we recorded a cost of $2.7 million as discussed above.

We have recorded $3.6 million in current and non-current liabilities for restructured real estate. The activity for the six months ended June 30, 2015 was as follows:

	Office Space Reductions	
Balance at December 31, 2014	$	242
Cost to operations during the six months ended June 30, 2015		1,354
Deferred rent liability		2,366
Utilized during the six months ended June 30, 2015		(396)
Balance at June 30, 2015	$	3,566

Goodwill impairment

During the three months ended June 30, 2014, we recorded a pretax goodwill impairment of $122.0 million. See Note 5 Goodwill and Intangible Assets, Net.

Other impairment

During the three months ended June 30, 2015 and 2014, we recorded $0.1 million and $0.2 million, respectively, of impairment on software that is no longer being utilized by our client-service employees for client engagements.

Item 2. ***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 unaudited consolidated financial statements included elsewhere in this report.

Overview

We are an independent specialized, global professional services firm that combines deep industry knowledge with broad technical expertise. We focus on industries and clients facing transformational change and significant regulatory and legal issues. We serve clients primarily in the healthcare, energy and financial services sectors which represent highly complex market and regulatory environments. Our professional service offerings include strategic, financial, operational, technology, risk management, compliance, investigative solutions, dispute resolution services and business process management services. 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 economies 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). We may also earn incremental revenues, in addition to hourly or fixed fees, which are contingent on the attainment of certain contractual milestones or outcomes. Variations in our quarterly or yearly revenues and resulting operating profit margins may occur depending on the timing of such contractual outcomes and our ability to consider these revenues earned and realized. Revenue is also earned on a per unit or subscription basis. Regardless of the terms of our engagements, our ability to earn those fees is reliant on experience and expertise of our client-service employees.

Our most significant expense is client-service employee compensation, which includes salaries, incentive compensation, amortization of sign-on and retention incentive payments, share-based compensation and benefits. Client-service employee 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 client-service employees.

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 non-billable employees 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 employees, the average number of full-time employees (FTE) and our ability to keep client-service employees utilized are important drivers of the business. The number of FTE 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 consulting FTE levels in response to changing demand.

While hiring and retention of employees are key to driving revenues, client-service employee levels and related compensation in excess of demand drive additional costs that can negatively impact operating profit margin. From time to time, we hire independent contractors and project employees to supplement our client-service employees on certain engagements, which allows us to adjust staffing in response to changes in demand for our services, and manage our costs accordingly.

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In connection with recruiting activities and business acquisitions, our general policy is to obtain non-solicitation covenants from senior and some mid-level client-service employees. 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, employees and projects.

We periodically review and adjust our employees 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.

In addition to investing in human capital resources, we invest in technology infrastructure to derive services to provide further value to current and future clients as our business models change.

Acquisitions

For details regarding our recent acquisitions, see Note 2 Acquisitions to the notes to our unaudited consolidated financial statements. Any material impact our acquisitions may have had on our results from operations or segment results for the periods presented has been included in our discussion below.

Dispositions

During the year ended December 31, 2014, we had one disposition. We sold a portion of the Technology, Data & Process business within our Healthcare segment. In accordance with ASC Topic 205 Presentation of Financial Statements (ASC 205), we consider the Technology, Data & Process business within this segment to be continuing. See Note 3 Dispositions to the notes to our unaudited consolidated financial statements.

Key Operating Metrics

The following key operating metrics provide additional operating information related to our continuing business and reporting segments. These key operating metrics may not be comparable to similarly-titled metrics at other companies. Our Technology, Data & Process businesses are comprised of technology enabled professional services, including e-discovery services, business process management services and data analytics, technology solutions and data services and insurance claims processing, market research and benchmarking businesses.

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

Client-Service FTE combination of Consulting FTE and Technology, Data & Process FTE defined as fol