

NAVIGANT CONSULTING INC
Form 10-Q
July 27, 2009

**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the six months ended June 30, 2009

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
(State or other jurisdiction of
incorporation or organization)

36-4094854
(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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(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

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As of July 27, 2009, 50.0 million shares of the Registrant's common stock, par value \$.001 per share, were outstanding.

NAVIGANT CONSULTING, INC.
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2009
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 Navigant is a service mark of Navigant International, Inc. Navigant Consulting, Inc. is not affiliated, associated, or in any way connected with Navigant International, Inc. and the use of Navigant is made under license from Navigant International, Inc.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements
NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,132	\$ 23,134
Accounts receivable, net	187,201	170,464
Prepaid expenses and other current assets	15,617	13,455
Deferred income tax assets	19,367	21,494
Total current assets	227,317	228,547
Property and equipment, net	47,045	45,151
Intangible assets, net	33,956	38,108
Goodwill	475,777	463,058
Other assets	15,592	17,529
Total assets	\$ 799,687	\$ 792,393
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 9,545	\$ 8,511
Accrued liabilities	9,404	10,086
Accrued compensation-related costs	43,602	72,701
Income taxes payable	557	1,371
Notes payable	4,170	4,173
Term loan current	2,250	2,250
Other current liabilities	37,106	31,467
Total current liabilities	106,634	130,559
Non-current liabilities:		
Deferred income tax liabilities	30,121	28,511
Other non-current liabilities	25,022	37,336
Term loan non-current	218,250	219,375
Bank debt non-current	19,217	10,854
Total non-current liabilities	292,610	296,076
Total liabilities	399,244	426,635
Stockholders equity:		
Preferred stock		
Common stock	60	59

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Additional paid-in capital	556,036	555,737
Deferred stock issuance, net		985
Treasury stock	(218,798)	(231,071)
Retained earnings	78,057	69,239
Accumulated other comprehensive loss	(14,912)	(29,191)
Total stockholders' equity	400,443	365,758
Total liabilities and stockholders' equity	\$ 799,687	\$ 792,393

See accompanying notes to the unaudited consolidated financial statements.

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

(In thousands, except per share data)

	For the three months ended	
	June 30,	
	2009	2008
Revenues before reimbursements	\$ 157,332	\$ 189,385
Reimbursements	16,224	22,023
 Total revenues	 173,556	 211,408
Cost of services before reimbursable expenses	101,967	113,852
Reimbursable expenses	16,224	22,023
 Total costs of services	 118,191	 135,875
General and administrative expenses	33,513	41,071
Depreciation expense	4,320	4,381
Amortization expense	3,392	4,597
Other operating costs:		
Office consolidation	4,612	2,575
 Operating income	 9,528	 22,909
Interest expense	3,952	5,618
Interest income	(312)	(225)
Other income, net	(87)	(68)
 Income before income tax expense	 5,975	 17,584
Income tax expense	2,590	7,598
 Net income	 \$ 3,385	 \$ 9,986
 Basic net income per share	 \$ 0.07	 \$ 0.21
Shares used in computing income per basic share	48,213	46,511
Diluted net income per share	\$ 0.07	\$ 0.21
Shares used in computing income per diluted share	49,756	48,257

See accompanying notes to the unaudited consolidated financial statements.

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

(In thousands, except per share data)

	For the six months ended	
	June 30,	
	2009	2008
Revenues before reimbursements	\$ 324,544	\$ 373,679
Reimbursements	31,374	44,868
Total revenues	355,918	418,547
Cost of services before reimbursable expenses	212,234	226,925
Reimbursable expenses	31,374	44,868
Total costs of services	243,608	271,793
General and administrative expenses	68,406	79,084
Depreciation expense	8,960	8,546
Amortization expense	7,012	8,824
Other operating costs:		
Office consolidation	5,520	4,093
Operating income	22,412	46,207
Interest expense	7,920	10,220
Interest income	(608)	(497)
Other income, net	(408)	(63)
Income before income tax expense	15,508	36,547
Income tax expense	6,690	15,655
Net income	\$ 8,818	\$ 20,892
Basic net income per share	\$ 0.18	\$ 0.45
Shares used in computing income per basic share	47,828	46,305
Diluted net income per share	\$ 0.18	\$ 0.44
Shares used in computing income per diluted share	49,604	47,548

See accompanying notes to the unaudited consolidated financial statements.

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

	For the six months ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 8,818	\$ 20,892
Adjustments to reconcile net income to net cash used in operating activities, net of acquisitions of businesses:		
Depreciation expense	8,960	8,546
Depreciation expense-office consolidation	995	1,488
Amortization expense	7,012	8,824
Share-based compensation expense	4,465	6,577
Accretion of interest expense	499	343
Allowance for doubtful accounts receivable	8,110	9,470
Deferred income taxes	1,472	(4,579)
Other, net		(14)
Changes in assets and liabilities:		
Accounts receivable	(21,358)	(24,325)
Prepaid expenses and other assets	(74)	(19,017)
Accounts payable	932	1,525
Accrued liabilities	(591)	2,246
Accrued compensation-related costs	(29,523)	(12,971)
Income taxes payable	902	2,758
Other current liabilities	2,147	(2,331)
Net cash used in operating activities	(7,234)	(568)
Cash flows from investing activities:		
Purchases of property and equipment	(12,352)	(3,964)
Acquisitions of businesses	(1,875)	(50,000)
Payments of acquisition liabilities	(2,821)	(3,154)
Other, net	(109)	(352)
Net cash used in investing activities	(17,157)	(57,470)
Cash flows from financing activities:		
Issuances of common stock	2,317	4,078
Payments of notes payable	(355)	(499)
Borrowings from banks, net of repayments	6,113	53,599
Payments of term loan installments	(1,125)	(1,125)
Other, net	(814)	649
Net cash provided by financing activities	6,136	56,702
Effect of exchange rate changes on cash	253	

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Net decrease in cash and cash equivalents	(18,002)	(1,336)
Cash and cash equivalents at beginning of the period	23,134	11,656
Cash and cash equivalents at end of the period	\$ 5,132	\$ 10,320

See accompanying notes to the unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

We are an independent specialty consulting firm combining deep industry expertise and integrated solutions to assist companies and their legal counsel in addressing the challenges of uncertainty and risk, and leveraging opportunities for overall business model improvement. Professional services include dispute, investigative, financial, operational and business advisory, risk management and regulatory advisory, strategy, economic analysis and transaction advisory solutions. We provide our services to government agencies, legal counsel and large companies facing the challenges of uncertainty, risk, distress and significant change. We focus on industries undergoing substantial regulatory or structural change and on the issues driving these transformations.

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America. The information furnished herein includes all adjustments, consisting of normal recurring adjustments except where indicated, which are, in the opinion of management, necessary for a fair presentation of the results of operations for these interim periods.

The results of operations for the six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2009.

These financial statements should be read in conjunction with our audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2008 included in the Annual Report on Form 10-K, as filed by us with the Securities and Exchange Commission on February 25, 2009.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates and may affect future results of operations and cash flows.

Note 2. Acquisitions

On February 23, 2009, we acquired assets of Morse PLC's Investment Management Consulting Business from Morse PLC located in the UK 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 includes a deferred tax adjustment of \$0.1 million. This acquisition consisted of 26 consulting professionals and has been included in the International Consulting Operations segment.

On May 1, 2008, we acquired the assets of Chicago Partners, LLC (Chicago Partners) for \$73.0 million, which consisted of \$50.0 million in cash paid at closing and \$23.0 million in our common stock (which was recorded at fair value for \$21.0 million at closing). The common stock will be paid in four equal installments of \$5.8 million, the first and second of which have been paid and the remaining two of which will be paid on each of the second and third year anniversaries of the closing. We acquired assets of \$16.7 million, including \$15.8 million in accounts receivable, net of an allowance for doubtful accounts, and assumed liabilities of \$7.0 million. We paid \$0.5 million in acquisition-related costs. We recorded \$2.8 million of liabilities for obligations related to lease exit costs for office space assumed in the acquisition. The obligation recorded for real estate lease exit costs is based on foregone rent payments for the remainder of the lease term less assumed sublease income. As of June 30, 2009, we have not secured subtenants to occupy the office space assumed in the acquisition. As part of the original purchase price allocation, we recorded \$4.3 million in identifiable intangible assets and \$61.6 million in goodwill. The purchase agreement provided for an adjustment of the purchase price for the difference in net assets acquired compared to the target net assets. The purchase price paid in cash at closing was funded under our credit facility.

Subsequent to the original acquisition date, we may pay up to \$27.0 million of additional purchase consideration based on the Chicago Partners' business achieving certain post-closing performance targets during the periods from closing to December 31, 2008 and in calendar years 2009, 2010 and 2011. If earned, the additional purchase consideration would be payable 75 percent in cash and 25 percent in our common stock. The additional purchase price payments, if any, will be payable in March of the year following the year such performance targets are attained. Any

additional purchase price consideration payments will be recorded as goodwill when the contingencies regarding attainment of performance targets are resolved. As of December 31, 2008, we recorded a liability for additional purchase price payments of approximately \$3.0 million associated with additional purchase consideration earned during

2008. During the three months ended March 31, 2009, we made an additional purchase price payment of \$2.3 million based on 2008 performance and accordingly adjusted the \$3.0 million accrual for earnout payments recorded at December 31, 2008 to \$2.3 million at March 31, 2009, which also impacted goodwill.

We acquired Chicago Partners to expand our product offerings to our clients. Chicago Partners provides economic and financial analyses of legal and business issues principally for law firms, corporations and government agencies. Chicago Partners had approximately 90 consultants at the time of acquisition. Chicago Partners is managed and resources are allocated based on its results and as such, in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, operates under a fourth operating segment referred to as Economic Consulting Services.

Pro Forma Information

The following table summarizes certain supplemental unaudited pro forma financial information which was prepared as if the first quarter 2009 acquisition noted above and the acquisitions completed during 2008 had occurred at the beginning of the periods presented. The unaudited pro forma financial information was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future.

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Total revenues	\$ 173,556	\$ 219,694	\$ 356,965	\$ 444,128
Net income	\$ 3,385	\$ 10,549	\$ 8,987	\$ 23,206
Basic net income per share	\$ 0.07	\$ 0.22	\$ 0.19	\$ 0.49
Diluted net income per share	\$ 0.07	\$ 0.22	\$ 0.18	\$ 0.48

Note 3. Segment Information

We manage our business in four segments North American Dispute and Investigative Services, North American Business Consulting Services, International Consulting Operations, and Economic Consulting Services. These segments are generally defined by the nature of their services and geography. The business is managed and resources are allocated on the basis of the four operating segments.

The North American Dispute and Investigative Services 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, and corporate boards.

The North American Business Consulting Services segment provides strategic, operational, financial, regulatory and technical management consulting services to clients. Services are sold principally through vertical industry practices such as energy, healthcare, financial and insurance. The clients are principally C suite and corporate management, government entities, and law firms.

The International Consulting Operations segment provides a mix of dispute and business consulting services to clients predominately outside North America with headquarters in London, England.

The Economic Consulting Services segment provides economic and financial analyses of complex legal and business issues principally for law firms, corporations and government agencies. Expertise includes areas such as antitrust, corporate finance and governance, bankruptcy, intellectual property, investment banking, labor market discrimination and compensation, corporate valuation, and securities litigation.

In accordance with the disclosure requirements of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of and Enterprise and Related Information, we identified the above four operating segments as reportable segments.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Total revenues:				
North American Dispute and Investigative Services	\$ 72,225	\$ 88,602	\$ 144,855	\$ 179,604
North American Business Consulting Services	69,356	92,045	148,995	188,386
International Consulting Operations	17,820	23,098	33,866	42,894
Economic Consulting Services	14,155	7,663	28,202	7,663
Total revenues	\$ 173,556	\$ 211,408	\$ 355,918	\$ 418,547
Segment operating profit:				
North American Dispute and Investigative Services	\$ 25,681	\$ 33,753	\$ 51,131	\$ 68,776
North American Business Consulting Services	23,356	33,993	49,747	67,323
International Consulting Operations	4,070	8,179	8,091	13,562
Economic Consulting Services	4,888	2,948	9,532	2,948
Total combined segment operating profit	57,995	78,873	118,501	152,609
Segment operating profit reconciliation to income before income tax expense:				
Unallocated:				
General and administrative expenses	33,513	41,071	68,406	79,084
Depreciation expense	4,320	4,381	8,960	8,546
Amortization expense	3,392	4,597	7,012	8,824
Long term compensation expense related to consulting personnel (including share based compensation expense)	2,630	3,340	6,191	5,855
Other operating costs	4,612	2,575	5,520	4,093
Other expense, net	3,553	5,325	6,904	9,660
Total unallocated expenses, net	52,020	61,289	102,993	116,062
Income before income tax expense	\$ 5,975	\$ 17,584	\$ 15,508	\$ 36,547

Long term compensation expense related to consulting personnel includes share based compensation expense and compensation expense attributed to forgivable loans (see note 8 of the unaudited consolidated financial statements).

During the three and six months ended June 30, 2009, we recorded \$4.6 million and \$5.5 million, respectively, in other operating costs compared to \$2.6 million and \$4.1 million for the corresponding periods in 2008. These costs were not allocated to segment operating costs. See note 12-Other Operating Costs.

The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses. Certain unallocated expense amounts related to specific reporting segments have been excluded from the segment operating profit to be consistent with the information used by management to evaluate segment performance. We record accounts receivable, goodwill and intangible assets on a segment basis. Other balance sheet amounts are not maintained on a segment basis.

Total assets by segment were as follows (shown in thousands):

June 30,

	2009	December 31, 2008
North American Dispute and Investigative Services	\$ 303,752	\$ 287,225
North American Business Consulting Services	230,756	236,419
International Consulting Operations	85,858	73,897
Economic Consulting Services	76,568	74,089
Unallocated assets	102,753	120,763
Total assets	\$ 799,687	\$ 792,393

Note 4. Goodwill and Intangible Assets

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

	June 30, 2009	December 31, 2008
Goodwill	\$ 481,202	\$ 468,483
Less accumulated amortization	(5,425)	(5,425)
Goodwill, net	475,777	463,058
Intangible assets:		
Client lists and relationships	62,471	58,834
Non-compete agreements	19,362	18,878
Other	18,225	17,470
Intangible assets, at cost	100,058	95,182
Less accumulated amortization	(66,102)	(57,074)
Intangible assets, net	33,956	38,108
Goodwill and intangible assets, net	\$ 509,733	\$ 501,166

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, we are required to perform an annual goodwill impairment test and more frequently if events or circumstances indicate that goodwill may be impaired. Our annual test is completed in the second quarter of each year. During the second quarter of 2009, we completed an annual impairment test of our goodwill balances as of May 31, 2009. There was no indication of impairment based on our analysis.

During our annual test of goodwill, we considered that each of the four reporting units has significant goodwill and intangible assets and that the excess of estimated fair value over the net asset carrying value for all reporting units decreased relative to the prior year test. As of date of our analysis, the excess of estimated fair value over net asset carrying value of the North American Business Consulting Services reporting unit and the North American Dispute and Investigative Services reporting unit was approximately 40% and 25% of the estimated fair value, respectively. The excess of estimated fair value over the net asset carrying value of the International Consulting Operations and Economic Consulting Services reporting units were both approximately 20% of the estimated fair value and given the smaller size of these reporting units the relative dollars of the excess is substantially smaller than the other two reporting units. Further, the estimated fair value of the International Consulting Operations and Economic Consulting Services reporting units may be more volatile due to the reporting units' smaller size and higher expected earnings growth rates. Also, given the International Consulting Operations reporting unit's geographic market, its excess may be more volatile. Additionally, the Economic Consulting Services reporting unit was recently acquired as one acquisition and thus its excess is dependent on the success of such acquisition.

In accordance with SFAS No. 142, we will be required to consider whether or not the fair value of each of the reporting units could have fallen below its carrying value. We will consider the elements outlined in SFAS No. 142 and other factors including, but not limited to, changes in the business climate in which we operate, recent disruptions in the financial markets, our market capitalization in excess of our book value, our recent operating performance, and our financial projections. As a result of this review we will be required to determine whether such an event or condition existed that would require us to perform an interim goodwill impairment test prior to our next annual test date. We will continue to monitor these factors and we may perform additional impairment tests as appropriate in future periods.

As prescribed by SFAS No. 144, Accounting for the Impairment of Long-Lived Assets, we review our intangible asset values on a periodic basis. We review long-lived assets, including identifiable intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or upon the occurrence of any triggering event as defined in SFAS No. 144. As of June 30, 2009, there was no indication of impairment related to our intangible assets. As summarized in the table above, we had \$34.0 million in intangible assets, net of accumulated amortization, as of June 30, 2009. Of the \$34.0 million balance, \$26.0 million related to customer lists and relationships, \$4.4 million related to non-compete agreements and \$3.6 million related to other intangible assets. As of June 30, 2009, the weighted average remaining life for customer lists and relationships, non-compete agreements and other intangible assets was 4.6 years, 2.5 years and 4.3 years, respectively. We have reviewed the estimated period of consumption for our intangible assets and the remaining useful lives appear reasonable. At June 30, 2009, the weighted average remaining life for our intangible assets in total was 4.3 years. Our intangible assets have estimated useful lives which range up to nine years. We will amortize the remaining net book values of intangible assets over their remaining useful lives.

On January 1, 2009, we adopted FSP FAS 157-2, Effective Date of FASB Statement No. 157 as it relates to nonrecurring fair value measurement requirements for non-financial assets and liabilities. Our adoption of SFAS No. 157 did not have a material impact on our financial statements for the six months ended June 30, 2009. SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 discusses valuation techniques,

such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost).

We use various methods to determine fair value, including market, income, and cost approaches. With these approaches, we adopt certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation. Inputs to valuation can be readily observable, market-corroborated, or unobservable. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value measurements used for our goodwill impairment testing uses significant unobservable Level 3 inputs which reflect our own assumptions about the assumptions that market participants would use in measuring fair value including assumptions about risk.

The changes in carrying values of goodwill and intangible assets were as follows (shown in thousands):

	For the six months ended June 30,	
	2009	2008
Beginning of period Goodwill, net	\$ 463,058	\$ 430,768
Goodwill acquired during the period	1,842	60,581
Adjustments to goodwill		(6,905)
Foreign currency translation goodwill	10,877	(1,101)
End of period Goodwill, net	\$ 475,777	\$ 483,343