

NAVIGANT CONSULTING INC  
Form 10-Q  
April 26, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-12173

Navigant Consulting, Inc.

(Exact name of registrant as specified in its charter)

Delaware 36-4094854  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

150 North Riverside Plaza, Suite 2100, Chicago, Illinois 60606

(Address of principal executive offices, including zip code)

(312) 573-5600

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(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 every Interactive Data File required to be submitted 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 such files). YES NO

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

|                         |                           |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer         |
| Non-accelerated filer   | Smaller reporting company |
|                         | Emerging growth company   |

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

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

As of April 18, 2019, 39,346,610 shares of the registrant's common stock, par value \$.001 per share, were outstanding.

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## Forward-Looking Statements

Statements included in this report which are not historical in nature are “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may generally be identified by words such as “anticipate,” “believe,” “may,” “should,” “could,” “intend,” “estimate,” “expect,” “likely,” “continue,” “plan,” “project,” “outlook” and similar expressions. These statements are based upon management’s current expectations and speak only as of the date of this report. The Company cautions readers that there may be events in the future that the Company is not able to accurately predict or control and the information contained in the forward-looking statements is inherently uncertain and subject to a number of risks that could cause actual results to differ materially from those contained in or implied by the forward-looking statements including, without limitation: the risk of unanticipated costs, liabilities or an adverse impact on the Company’s business operations arising from the Company’s provision of post-divestiture transition services and support in connection with the sale of the Company’s Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within the Company’s Financial Services Advisory and Compliance segment; the execution of the Company’s long-term growth objectives and margin improvement initiatives; risks inherent in international operations, including foreign currency fluctuations; ability to make acquisitions and divestitures and complete such acquisitions and divestitures in the time anticipated; pace, timing and integration of acquisitions; operational risks associated with new or expanded service areas, including business process management services; impairments; changes in accounting standards or tax rates, laws or regulations; management of professional staff, including dependence on key personnel, recruiting, retention, attrition and the ability to successfully integrate new consultants into the Company’s practices; utilization rates; conflicts of interest; potential loss of clients or large engagements and the Company’s ability to attract new business; brand equity; competition; accurate pricing of engagements, particularly fixed fee and multi-year engagements; clients’ financial condition and their ability to make payments to the Company; risks inherent with litigation; higher risk client assignments; government contracting; professional liability; information security; the adequacy of our business, financial and information systems and technology; maintenance of effective internal controls; potential legislative and regulatory changes; continued and sufficient access to capital; compliance with covenants in our credit agreement; interest rate risk; and market and general economic and political conditions. Further information on these and other potential factors that could affect the Company’s business and financial condition and the results of operations are included in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, and elsewhere in the Company’s filings with the Securities and Exchange Commission (“SEC”), which are available on the SEC’s website or at [investors.navigant.com](http://investors.navigant.com). The Company cannot guarantee any future results, levels of activity, performance or achievement and undertakes no obligation to update any of its forward-looking statements.

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements.

## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

|  | March 31,<br>2019 | December<br>31,<br>2018 |
|--|-------------------|-------------------------|
| <b>ASSETS</b>                                |                   |                         |
| Current assets:                              |                   |                         |
| Cash and cash equivalents                    | \$ 107,217        | \$ 206,920              |
| Accounts receivable, net and contract assets | 186,523           | 179,923                 |
| Prepaid expenses and other current assets    | 26,835            | 22,512                  |
| Total current assets                         | 320,575           | 409,355                 |
| Non-current assets:                          |                   |                         |
| Property and equipment, net                  | 61,374            | 63,025                  |
| Operating lease right-of-use assets          | 83,959            | -                       |
| Intangible assets, net                       | 15,470            | 14,166                  |
| Goodwill                                     | 425,069           | 422,357                 |
| Other assets                                 | 8,703             | 8,644                   |
| Total assets                                 | \$ 915,150        | \$ 917,547              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                         |
| Current liabilities:                         |                   |                         |
| Accounts payable                             | \$ 12,869         | \$ 13,302               |
| Accrued liabilities                          | 16,075            | 15,558                  |
| Accrued compensation-related costs           | 40,784            | 69,555                  |
| Income tax payable                           | 10,519            | 13,357                  |
| Operating lease liabilities                  | 22,368            | -                       |
| Other current liabilities                    | 22,761            | 34,044                  |
| Total current liabilities                    | 125,376           | 145,816                 |
| Non-current liabilities:                     |                   |                         |
| Deferred income tax liabilities              | 38,492            | 33,901                  |
| Operating lease liabilities                  | 85,297            | -                       |
| Other non-current liabilities                | 4,321             | 25,277                  |
| Total non-current liabilities                | 128,110           | 59,178                  |
| Total liabilities                            | 253,486           | 204,994                 |
| Stockholders' equity:                        |                   |                         |
| Common stock                                 | 49                | 49                      |
| Additional paid-in capital                   | 666,794           | 664,473                 |
| Treasury stock                               | (214,465)         | (160,972)               |
| Retained earnings                            | 213,830           | 211,543                 |
| Accumulated other comprehensive loss         | (6,971 )          | (6,529 )                |

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|  |            |            |
|--|------------|------------|
| Total Navigant Consulting, Inc. stockholders' equity | 659,237    | 708,564    |
| Non-controlling interest                             | 2,427      | 3,989      |
| Total stockholders' equity                           | 661,664    | 712,553    |
| Total liabilities and stockholders' equity           | \$ 915,150 | \$ 917,547 |

See accompanying notes to unaudited consolidated financial statements.

## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data (1))

|  | For the three months ended |            |
|--|----------------------------|------------|
|  | March 31,                  |            |
|  | 2019                       | 2018       |
| Revenues before reimbursements   | \$ 186,129                 | \$ 161,445 |
| Reimbursements   | 16,733                     | 16,623     |
| Total revenues   | 202,862                    | 178,068    |
| Cost of services before reimbursable expenses  | 135,356                    | 116,936    |
| Reimbursable expenses  | 16,733                     | 16,623     |
| Total cost of services   | 152,089                    | 133,559    |
| General and administrative expenses  | 35,167                     | 37,079     |
| Depreciation expense   | 4,586                      | 4,997      |
| Amortization expense   | 1,372                      | 1,752      |
| Other operating costs  | 32                         | 983        |
| Operating income (loss)  | 9,616                      | (302 )     |
| Interest expense   | 318                        | 828        |
| Interest income  | (689 )                     | (119 )     |
| Other expense, net   | 132                        | 361        |
| Income (loss) from continuing operations before income tax expense                     | 9,855                      | (1,372 )   |
| Income tax expense   | 3,047                      | 225        |
| Net income (loss) from continuing operations   | 6,808                      | (1,597 )   |
| (Loss) income from discontinued operations, net of tax                                 | (489 )                     | 13,450     |
| Net income   | 6,319                      | 11,853     |
| Less: Income attributable to non-controlling interest, net of tax                      | (2,038 )                   | -          |
| Net income attributable to Navigant Consulting, Inc.                                   | \$ 4,281                   | \$ 11,853  |
| Basic net income per share   |                            |            |
| Net income (loss) from continuing operations attributable to Navigant Consulting, Inc. | \$ 0.12                    | \$ (0.04 ) |
| (Loss) income from discontinued operations, net of tax                                 | (0.01 )                    | 0.30       |
| Net income attributable to Navigant Consulting, Inc. (1)                               | \$ 0.11                    | \$ 0.26    |
| Shares used in computing basic per share data  | 40,218                     | 45,120     |
| Diluted net income per share   |                            |            |
| Net income (loss) from continuing operations attributable to Navigant Consulting, Inc. | \$ 0.12                    | \$ (0.04 ) |
| (Loss) income from discontinued operations, net of tax                                 | (0.01 )                    | 0.30       |
| Net income attributable to Navigant Consulting, Inc. (1)                               | \$ 0.10                    | \$ 0.26    |
| Shares used in computing diluted per share data  | 41,408                     | 45,120     |
| Net income   | \$ 6,319                   | \$ 11,853  |
| Other comprehensive (loss) income, net of tax:   |                            |            |
| Unrealized net (loss) gain, foreign currency translation                               | (442 )                     | 1,369      |
| Unrealized net gain on interest rate derivatives                                       | -                          | 250        |

Reclassification adjustment on interest rate derivatives included in

|  |          |           |
|--|----------|-----------|
| interest expense and income tax expense  | -        | 7         |
| Other comprehensive (loss) income, net of tax                                    | (442 )   | 1,626     |
| Total comprehensive income, net of tax   | 5,877    | 13,479    |
| Income attributable to non-controlling interest, net of tax                      | (2,038 ) | -         |
| Total comprehensive income attributable to Navigant Consulting, Inc., net of tax | \$ 3,839 | \$ 13,479 |

(1) Earnings per share may not foot due to rounding.

See accompanying notes to unaudited consolidated financial statements.



## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

|  | Navigant Consulting, Inc. Shareholders |                             |                                 |                                  |                           | Accumulated<br>Other<br>Comp-<br>rehensive<br>Loss | Retained<br>Earnings | Non-Controlling<br>Interest | Total<br>Stock-holders'<br>Equity |
|--|--|-----------------------------|---------------------------------|----------------------------------|---------------------------|--|----------------------|-----------------------------|-----------------------------------|
|  | Common<br>Stock<br>Shares              | Treasury<br>Stock<br>Shares | Common<br>Stock<br>Par<br>Value | Additional<br>Paid-In<br>Capital | Treasury<br>Stock<br>Cost |  |                      |                             |                                   |
| Balance at<br>December 31,<br>2018   | 49,387                                 | (8,114 )                    | \$ 49                           | \$664,473                        | \$(160,972)               | \$(6,529 )   | \$211,543            | \$ 3,989                    | \$712,553                         |
| Distributions to<br>non-controlling<br>interests                                       |  |                             |                                 |                                  |                           |  |                      | (3,600 )                    | (3,600 )                          |
| Comprehensive<br>(loss) income   | -                                      | -                           | -                               | -                                | -                         | (442 )   | 4,281                | 2,038                       | 5,877                             |
| Dividends paid<br>(\$0.05 per share)   |  |                             |                                 |                                  |                           |  | (1,994 )             | -                           | (1,994 )                          |
| Issuances of<br>common stock   | 69                                     | -                           | -                               | 856                              | -                         | -  | -                    | -                           | 856                               |
| Vesting of<br>restricted stock<br>units, net of<br>forfeitures and<br>tax withholdings | 90                                     | -                           | -                               | (1,304 )                         | -                         | -  | -                    | -                           | (1,304 )                          |
| Share-based<br>compensation<br>expense   | -                                      | -                           | -                               | 2,769                            | -                         | -  | -                    | -                           | 2,769                             |
| Repurchases of<br>common stock   | -                                      | (2,317 )                    | -                               | -                                | (53,493 )                 | -  | -                    | -                           | (53,493 )                         |
| Balance at March<br>31, 2019   | 49,546                                 | (10,431)                    | \$ 49                           | \$666,794                        | \$(214,465)               | \$(6,971 )   | \$213,830            | \$ 2,427                    | \$661,664                         |

| Navigant Consulting, Inc. Shareholders |                             |                                 |                                  |  | Treasury<br>Stock<br>Cost | Accumulated<br>Other<br>Comp- | Retained<br>Earnings | Total<br>Stock-holders'<br>Equity |
|--|-----------------------------|---------------------------------|----------------------------------|--|---------------------------|-------------------------------|----------------------|-----------------------------------|
| Common<br>Stock<br>Shares              | Treasury<br>Stock<br>Shares | Common<br>Stock<br>Par<br>Value | Additional<br>Paid-In<br>Capital |  |                           |                               |                      |                                   |

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|   |        |          |       |            |             | Comprehensive<br>Loss |           |            |
|---|--------|----------|-------|------------|-------------|-----------------------|-----------|------------|
| Balance at December 31,<br>2017   | 58,047 | (12,661) | \$ 58 | \$ 659,825 | \$(224,366) | \$(19,178 )           | \$270,995 | \$ 687,334 |
| Cumulative-effect<br>adjustment resulting from<br>the adoption of ASU<br>2014-09 (Note 2) | -      | -        | -     | -          | -           | -                     | 151       | 151        |
| Comprehensive income  | -      | -        | -     | -          | -           | 1,626                 | 11,853    | 13,479     |
| Issuances of common<br>stock  | 89     | -        | -     | 1,238      | -           | -                     | -         | 1,238      |
| Vesting of restricted<br>stock units, net of<br>forfeitures and tax<br>withholdings       | 94     | -        | -     | (1,516 )   | -           | -                     | -         | (1,516 )   |
| Share-based<br>compensation expense   | -      | -        | -     | 3,377      | -           | -                     | -         | 3,377      |
| Repurchases of common<br>stock  | -      | (569 )   | -     | -          | (11,357 )   | -                     | -         | (11,357 )  |
| Balance at March 31,<br>2018  | 58,230 | (13,230) | \$ 58 | \$ 662,924 | \$(235,723) | \$(17,552 )           | \$282,999 | \$ 692,706 |

See accompanying notes to unaudited consolidated financial statements.

## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|   | For the three months<br>ended<br>March 31, |           |
|---|--|-----------|
|   | 2019                                       | 2018      |
| Cash flows from operating activities:   |  |           |
| Net income  | \$ 6,319                                   | \$ 11,853 |
| Adjustments to reconcile net income to net cash used in operating activities: |  |           |
| Depreciation expense  | 4,586                                      | 6,845     |
| Amortization expense  | 1,372                                      | 1,856     |
| Share-based compensation expense  | 2,769                                      | 3,377     |
| Deferred income taxes   | 5,086                                      | 968       |
| Allowance for doubtful accounts receivable                                    | 448  | 3,130     |
| Loss from disposition of discontinued operations                              | 672  | -         |
| Other, net  | 185  | 1,007     |
| Changes in assets and liabilities (net of acquisitions):                      |  |           |
| Accounts receivable, net and contract assets                                  | (7,014 )                                   | (23,615 ) |
| Prepaid expenses and other assets   | (4,305 )                                   | (716 )    |
| Accounts payable  | (423 )                                     | (2,100 )  |
| Accrued liabilities   | (119 )                                     | 2,200     |
| Accrued compensation-related costs  | (28,772 )                                  | (36,458 ) |
| Income taxes payable  | (3,356 )                                   | 2,926     |
| Other liabilities   | (8,587 )                                   | (6,120 )  |
| Net cash used in operating activities   | (31,139 )                                  | (34,847 ) |
| Cash flows from investing activities:   |  |           |
| Purchases of property and equipment   | (3,007 )                                   | (5,750 )  |
| Acquisitions of businesses, net of cash acquired                              | (6,000 )                                   | -         |
| Net cash used in investing activities   | (9,007 )                                   | (5,750 )  |
| Cash flows from financing activities:   |  |           |
| Issuances of common stock   | 856  | 1,238     |
| Repurchases of common stock   | (53,493 )                                  | (11,357 ) |
| Dividend payments   | (1,994 )                                   | -         |
| Repayments to banks   | -  | (79,144 ) |
| Borrowings from banks   | -  | 129,677   |
| Distributions to non-controlling interest holder                              | (3,600 )                                   | -         |
| Other, net  | (1,306 )                                   | (1,596 )  |
| Net cash (used in) provided by financing activities                           | (59,537 )                                  | 38,818    |
| Effect of exchange rate changes on cash and cash equivalents                  | (20 )                                      | (24 )     |
| Net decrease in cash and cash equivalents                                     | (99,703 )                                  | (1,803 )  |
| Cash and cash equivalents at beginning of the period                          | 206,920                                    | 8,449     |
| Cash and cash equivalents at end of the period                                | \$ 107,217                                 | \$ 6,646  |

Supplemental Unaudited Consolidated Cash Flow Information

(In thousands)

|                                   | For the three<br>months ended<br>March 31, |          |
|-----------------------------------|--|----------|
|                                   | 2019                                       | 2018     |
| Interest paid                     | \$ 153                                     | \$ 1,014 |
| Income taxes paid, net of refunds | \$ 1,137                                   | \$ 891   |

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

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for interim reporting and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America (“GAAP”). The information contained herein includes all adjustments, consisting of normal and recurring adjustments except where indicated, which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods presented.

The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2019.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes as of and for the year ended December 31, 2018 included in our Annual Report on Form 10-K filed with the SEC on February 28, 2019 (“2018 Form 10-K”).

The preparation of unaudited consolidated 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. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

Effective January 1, 2019, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-02, Leases (“Topic 842”). This update amends the accounting requirements for leases by requiring recognition of lease liabilities and related right-of-use assets on the balance sheet. Lessees are required to recognize a lease liability measured on a discounted basis, which is the lessee’s obligation to make lease payments arising from a lease, and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. We adopted Topic 842 using the modified retrospective approach as of the effective date, January 1, 2019. We have recorded the cumulative effects on our balance sheet as of the effective date. No adjustments were made to prior comparative periods. Due to the number of leases we are party to, the related obligations and right-of-use assets did have a material impact on our unaudited consolidated balance sheets (see Note 11 – Leases). As a result of the adoption, there was no impact on net income or net assets. We recorded operating lease

right-of-use assets of \$84.0 million, current lease liability of \$22.4 million and non-current lease liability of \$85.3 million as of March 31, 2019. The right-of-use asset balance reflects the impact of other liability amounts, specifically deferred rent that has been effectively reclassified. As part of the adoption, we elected the package of practical expedients permitted under the transition guidance within Topic 842, which among other things, allowed us to carry forward the historical lease classification. Further, we also applied the practical expedient to combine, when applicable, lease and non-lease components. Leases with a term of 12 months or less are not recorded on the balance sheet.

On January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (“Topic 606”). As a result of the adoption, we recorded a net increase to retained earnings as of January 1, 2018 of \$0.2 million, net of tax, with the impact primarily relating to certain contracts that include event-based variable consideration. For further discussion about our revenue recognition policy see Note 4 – Revenue Recognition.

On January 1, 2018, we adopted ASU 2016-15, Statement of Cash Flow (“Topic 230”). This update is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The update provided new guidance regarding the classification of debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies including bank-owned life insurance policies, distributions received from equity

method investments, beneficial interests in securitized transactions, and separately identifiable cash flows and application of the predominance principle. We determined that the manner in which we previously classified our contingent acquisition liability payments in the unaudited consolidated statement of cash flows would change. Based on our evaluation, adoption of this standard required a reclassification of a portion of the payments previously reported as financing activities for comparative periods in the statement of cash flows within our unaudited consolidated financial statements issued for periods beginning on or after January 1, 2018. Under this guidance, portions of these payments have been reclassified from financing activities to operating activities. We applied this change retrospectively, and it did not have a material impact on our unaudited consolidated financial statements.

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

### 3. DISPOSITIONS AND DISCONTINUED OPERATIONS

On August 24, 2018, we completed the disposition of our former Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within our Financial Services Advisory and Compliance segment (collectively, “SaleCo”) to Ankura Consulting Group, LLC (“Ankura”) for total proceeds of \$462.8 million net of working capital adjustments. The operations of SaleCo have been presented in accordance with ASC Topic 205 “Discontinued Operations” for all periods presented. All other operations are considered “continuing operations” and have been presented in three segments. See Note 5 – Segment Information.

In addition to the purchase agreement for SaleCo, we entered into a Transition Services Agreement pursuant to which we provide Ankura with certain services to enable Ankura to operate SaleCo (the “TSA Services”). The TSA Services include information technology, finance and accounting, human resources and other corporate support services. The TSA Services were provided to Ankura for a period of up to 6 months after the closing date for certain services, and certain services were extended at Ankura’s option through August 31, 2019. Income related to the TSA Services has been recorded in general and administrative expenses.

The amounts attributable to each category of discontinued operations were as follows (in thousands):

|  | For the three<br>months ended<br>March 31, |           |
|--|--|-----------|
|  | 2019                                       | 2018      |
| Revenues before reimbursements                                       | \$ -                                       | \$ 82,434 |
| Total revenues   | \$ -                                       | \$ 86,452 |
| Cost of services including reimbursable expenses                     | \$ -                                       | \$ 58,487 |
| General and administrative expenses                                  | \$ -                                       | \$ 7,283  |
| Amortization and depreciation expense                                | \$ -                                       | \$ 1,953  |
| Interest expense   | \$ -                                       | \$ 488    |
| Loss from disposition of discontinued operations                     | \$ (672)                                   | \$ -      |
| Other expense, net   | \$ -                                       | \$ (29 )  |
| (Loss) income from discontinued operations before income tax expense | \$ (672)                                   | \$ 18,212 |
| Income tax (benefit) expense from discontinued operations            | \$ (183)                                   | \$ 4,762  |

|  |                    |
|--|--------------------|
| (Loss) income from discontinued operations, net of tax | \$ (489) \$ 13,450 |
|--|--------------------|

Amounts recorded to discontinued operations in the three months ended March 31, 2019 were due to settlements of certain working capital amounts, as well as changes in estimates of other transaction related contingencies. Certain contingencies remain unresolved and are subject to finalization and settlement, which may result in further adjustments to the gain (loss) on disposition.

We have allocated interest expense to discontinued operations based on the ratio of net assets of discontinued operations to the sum of total net assets plus consolidated debt.

Capital expenditures for the three months ended March 31, 2018 totaled \$0.3 million.



#### 4. REVENUE RECOGNITION

##### Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted Topic 606 and all the related amendments (“the new revenue standard”) for all contracts with customers not completed as of the adoption date using the cumulative catch-up transition (modified retrospective) method. Results as of January 1, 2018 are presented under Topic 606. Previously, we recognized event-based variable fees when contractual milestones or obligations were met, however, Topic 606 requires us to estimate and recognize the revenue from certain event-based variable fees over the period of performance to the extent that it is probable that a significant reversal will not occur.

##### Contract Assets and Liabilities

We define contract assets as revenues recognized for fixed-fee, event-based or performance-based arrangements for which we are not contractually able to bill. These contract assets are included in accounts receivable, net and contract assets within the unaudited consolidated balance sheets. As of March 31, 2019 and December 31, 2018, our contract assets were not material. In most cases, our standard fixed fee contracts allow for monthly billing.

We define contract liabilities as retainers and advance payments from or billings to our customers for services that have not yet been performed or earned and retainers. These liabilities are recorded within other current liabilities and are recognized as services are provided. Any taxes assessed on revenues relating to services provided to our clients are recorded on a net basis. As of March 31, 2019 and December 31, 2018, our contract liabilities were \$21.3 million and \$28.9 million, respectively. During the three months ended March 31, 2019, \$17.7 million was recognized into revenue from the opening balance. The remaining change related to amounts billed or payments received for work not yet performed.

##### Performance Obligations

For disclosure purposes, we apply the practical expedient to exclude the value of unsatisfied performance obligations for contracts with an enforceable duration of one year or less. We also apply the practical expedient to exclude those amounts for contracts in which we apply the right to invoice. The majority of our contracts include termination for convenience clauses which generally require 30 days’ notice with no penalty. The notice period required determines the contract duration resulting in very few agreements which are contractually enforceable beyond one year. As of March 31, 2019, we had approximately \$147.3 million of remaining performance obligations of which approximately \$52.9 million are expected to be satisfied beyond one year. These obligations mainly relate to our newly formed joint venture with Baptist Health South Florida, Health System Solutions, LLC (“HSS”).

#### 5. SEGMENT INFORMATION

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

- The Healthcare segment provides strategic, performance improvement, and business process management solutions. Clients of this segment include healthcare providers, physician enterprises, payers, government agencies and life sciences companies. We help clients respond to market legislative changes such as the shift to an outcomes and value-based reimbursements model, ongoing industry consolidation and reorganization, Medicaid expansion, the implementation of a new electronic health records system and product planning and commercialization expertise.
- The Energy segment provides full lifecycle solutions that help clients transform their businesses in a rapidly changing energy environment, manage complexity and accelerate operational performance, meet compliance requirements, and transform their organizations and systems. In addition, we provide a broad array of benchmarking, data and market research capabilities related to the energy sector.

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

The following information includes segment revenues before reimbursements, segment total revenues and segment operating profit. Certain unallocated expense amounts related to specific reporting segments have been excluded from segment operating profit to be consistent with the information used by management to evaluate segment performance. Segment operating profit represents total revenues less cost of services excluding long-term compensation expense attributable to client-service employees. Long-term compensation expense attributable to client-service employees includes share-based compensation expense and compensation expense

attributed to certain retention incentives (see Note 8 — Share-Based Compensation Expense and Note 9 — Supplemental Consolidated Balance Sheet Information).

The information presented does not necessarily reflect the results of segment operations that would have occurred had the reporting segments been stand-alone businesses.

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

|  | For the three months<br>ended<br>March 31, |             |
|--|--|-------------|
|  | 2019                                       | 2018        |
| Revenues before reimbursements:  |  |             |
| Healthcare   | \$ 119,003                                 | \$ 90,149   |
| Energy   | 36,249                                     | 33,704      |
| Financial Services Advisory and Compliance   | 30,877                                     | 37,592      |
| Total revenues before reimbursements   | \$ 186,129                                 | \$ 161,445  |
| Total revenues:  |  |             |
| Healthcare   | \$ 126,569                                 | \$ 98,712   |
| Energy   | 43,700                                     | 37,637      |
| Financial Services Advisory and Compliance   | 32,593                                     | 41,719      |
| Total revenues   | \$ 202,862                                 | \$ 178,068  |
| Segment operating profit:  |  |             |
| Healthcare   | \$ 36,755                                  | \$ 20,390   |
| Energy   | 10,410                                     | 10,728      |
| Financial Services Advisory and Compliance   | 5,231                                      | 14,836      |
| Total segment operating profit   | 52,396                                     | 45,954      |
| Segment reconciliation to income before income tax expense:  |  |             |
| Reconciling items:   |  |             |
| General and administrative expenses  | 35,167                                     | 37,079      |
| Depreciation expense   | 4,586                                      | 4,997       |
| Amortization expense   | 1,372                                      | 1,752       |
| Other operating costs, net   | 32   | 983         |
| Long-term compensation expense attributable to client-service employees (including share-based compensation expense) | 1,623                                      | 1,445       |
| Operating income (loss)  | 9,616                                      | (302 )      |
| Interest and other (income) expense, net   | (239 )                                     | 1,070       |
| Income (loss) from continuing operations before income tax expense   | \$ 9,855                                   | \$ (1,372 ) |

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

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|  | March<br>31,<br>2019 | December<br>31,<br>2018 |
|--|----------------------|-------------------------|
| Healthcare                                 | \$415,917            | \$405,283               |
| Energy                                     | 133,766              | 130,052                 |
| Financial Services Advisory and Compliance | 81,508               | 85,250                  |
| Unallocated assets                         | 283,959              | 296,962                 |
| Total assets                               | \$915,150            | \$917,547               |

## 6. GOODWILL AND INTANGIBLE ASSETS, NET

The changes made to the goodwill balances of our reporting units for the three months ended March 31, 2019 and the year ended December 31, 2018, were as follows (shown in thousands):

|                               | Healthcare | Energy    | Financial Services Advisory and Compliance | Total Company |
|-------------------------------|------------|-----------|--|---------------|
| Goodwill at December 31, 2018 | \$ 294,283 | \$ 80,034 | \$ 48,040                                  | \$ 422,357    |
| Acquisitions                  | 3,237      | -         | -  | 3,237         |
| Adjustments                   | (2 )       | -         | (6 )                                       | (8 )          |
| Foreign currency translation  | -          | (58 )     | (459 )                                     | (517 )        |
| Goodwill at March 31, 2019    | \$ 297,518 | \$ 79,976 | \$ 47,575                                  | \$ 425,069    |

|                               | Healthcare | Energy    | Financial Services Advisory and Compliance | Total Company |
|-------------------------------|------------|-----------|--|---------------|
| Goodwill at December 31, 2017 | \$ 294,064 | \$ 80,109 | \$ 48,786                                  | \$ 422,959    |
| Adjustments                   | 365        | 200       | (24 )                                      | 541           |
| Foreign currency translation  | (146 )     | (275 )    | (722 )                                     | (1,143 )      |
| Goodwill at December 31, 2018 | \$ 294,283 | \$ 80,034 | \$ 48,040                                  | \$ 422,357    |

We performed our annual goodwill impairment test as of May 31, 2018 on our three continuing reporting units and our former Disputes, Forensics and Legal Technology reporting unit using certain key assumptions. The key assumptions included: internal projections completed during our first quarter 2018 forecasting process; profit margin improvement generally consistent with our longer-term historical performance; assumptions regarding contingent revenue; revenue growth consistent with our longer-term historical performance, also considering our near-term investment plans and growth objectives; discount rates based on comparable discount rates for our peer group; revenue and earnings before interest, taxes, depreciation and amortization (“EBITDA”) multiples comparable to multiples for our peer group; Navigant-specific risk considerations; control premium; and cost of capital based on our historical experience.

As of May 31, 2018, the estimated fair value of our Healthcare, Energy and Financial Services Advisory and Compliance reporting units exceeded the fair value of invested capital by 23%, 32%, and 72%, respectively.

We have reviewed our most recent financial projections and considered the impact of changes to our business and market conditions on our goodwill valuation and determined that no events or conditions have occurred or are expected to occur that would trigger a need to perform an interim goodwill impairment test on our remaining three reporting units. We will continue to monitor the factors and key assumptions used in determining the fair value of each of our continuing three reporting units. There can be no assurance that goodwill or intangible assets will not be impaired in the future. We will perform our next annual goodwill impairment test as of May 31, 2019.

Intangible assets consisted of (in thousands):

|                                  | March 31,<br>2019 | December<br>31,<br>2018 |
|----------------------------------|-------------------|-------------------------|
| Intangible assets:               |                   |                         |
| Customer lists and relationships | \$108,555         | \$105,368               |
| Non-compete agreements           | 23,066            | 22,923                  |
| Other                            | 28,450            | 28,304                  |
| Intangible assets, at cost       | 160,071           | 156,595                 |
| Less: accumulated amortization   | (144,601)         | (142,429)               |
| Intangible assets, net           | \$15,470          | \$14,166                |

Our intangible assets have estimated remaining useful lives ranging up to six years which approximate the estimated periods of consumption. We will amortize the remaining net book values of intangible assets over their remaining useful lives. At March 31, 2019, our intangible assets categories were as follows (in thousands, except year data):

| Category                              | Weighted<br>Average<br>Remaining<br>Years | Amount   |
|---------------------------------------|---|----------|
| Customer lists and relationships, net | 4.1                                       | \$14,014 |
| Non-compete agreements, net           | 2.2                                       | 1,018    |
| Other intangible assets, net          | 3.3                                       | 438      |
| Total intangible assets, net          | 3.9                                       | \$15,470 |

Total amortization expense was \$1.4 million and \$1.8 million for the three months ended March 31, 2019 and 2018, respectively. The estimated annual aggregate amortization expense to be recorded related to intangible assets at March 31, 2019 is as follows (in thousands):

| Year Ending December 31,        | Amount   |
|---------------------------------|----------|
| 2019 (includes January - March) | \$ 5,393 |
| 2020                            | 4,196    |
| 2021                            | 4,085    |
| 2022                            | 936      |
| 2023                            | 1,243    |
| 2024 and thereafter             | 989      |

#### 7. NET INCOME PER SHARE (EPS)

Income (loss) from continuing operations attributable to Navigant Consulting, Inc. was \$4.8 million and (\$1.6 million) for the three months ended March 31, 2019 and 2018, respectively. The components of basic and diluted shares (in thousands and based on the weighted average days outstanding for the periods) were as follows:

|                        | For the three<br>months ended<br>March 31, |        |
|------------------------|--|--------|
|                        | 2019                                       | 2018   |
| Basic shares           | 40,218                                     | 45,120 |
| Employee stock options | 146  | 153    |
| Restricted stock units | 951  | 1,544  |

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|                              |        |        |
|------------------------------|--------|--------|
| Contingently issuable shares | 93     | 17     |
| Diluted shares (1)           | 41,408 | 46,834 |
| Antidilutive shares (2)      | 16     | 33     |

(1) Diluted earnings per share is not presented for the three months ended March 31, 2018 as there is a net loss from continuing operations for that period.

(2) 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.

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**8. SHARE-BASED COMPENSATION EXPENSE**

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

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

|   | For the three months ended March 31, |         |
|---|--------------------------------------|---------|
|   | 2019                                 | 2018    |
| Amortization of restricted stock awards and restricted stock unit awards                        | \$2,640                              | \$2,774 |
| Amortization of stock option awards   | 21                                   | 34      |
| Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan | 108                                  | 107     |
| Share-based compensation expense from continuing operations                                     | 2,769                                | 2,915   |
| Share-based compensation expense from discontinued operations                                   | -                                    | 462     |
| Total share-based compensation expense  | \$2,769                              | \$3,377 |

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

|   | For the three months ended March 31, |         |
|---|--------------------------------------|---------|
|   | 2019                                 | 2018    |
| Cost of services before reimbursable expenses                 | \$639                                | \$767   |
| General and administrative expenses                           | 2,130                                | 2,148   |
| Share-based compensation expense from continuing operations   | 2,769                                | 2,915   |
| Share-based compensation expense from discontinued operations | -                                    | 462     |
| Total share-based compensation expense                        | \$2,769                              | \$3,377 |

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. For further information on discontinued operations see Note 3 – Dispositions and Discontinued Operations.

At March 31, 2019, we had \$8.7 million of total compensation costs related to unvested share-based awards that have not been recognized as share-based compensation expense. The compensation costs will be recognized as an expense over the remaining vesting periods. The weighted average remaining vesting period is approximately two years. During the three months ended March 31, 2019, we granted an aggregate of 195,031 share-based awards, consisting of restricted stock awards and units with an aggregate fair value of \$3.9 million at the time of grant. These grants include certain awards that vest based on relative achievement of pre-established performance criteria.

**9. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION**

## Accounts Receivable, Net and Contract Assets

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

|  | March 31,<br>2019 | December<br>31,<br>2018 |
|--|-------------------|-------------------------|
| Billed amounts                                     | \$ 108,125        | \$ 116,190              |
| Engagements in process and contract assets         | 89,512            | 74,633                  |
| Allowance for uncollectible billed amounts         | (8,022 )          | (7,815 )                |
| Allowance for uncollectible engagements in process | (3,092 )          | (3,085 )                |
| Accounts receivable, net and contract assets       | \$ 186,523        | \$ 179,923              |

Receivables attributable to engagements in process represent balances for services that have been performed and earned but have not been billed to the client. Engagements in process include contract assets. See Note 4 – Revenue Recognition for information on contract assets. 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):

|   | March<br>31,<br>2019 | December<br>31,<br>2018 |
|---|----------------------|-------------------------|
| Prepaid recruiting and retention incentives - current   | \$ 5,387             | \$ 4,552                |
| Other current prepaid expenses and other current assets | 21,448               | 17,960                  |
| Prepaid expenses and other current assets               | \$ 26,835            | \$ 22,512               |

#### Other Assets

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

|   | March<br>31,<br>2019 | December<br>31,<br>2018 |
|---|----------------------|-------------------------|
| Prepaid recruiting and retention incentives - non-current | \$ 3,070             | \$ 2,654                |
| Other prepaid expenses and other non-current assets       | 5,633                | 5,990                   |
| Other assets  | \$ 8,703             | \$ 8,644                |

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 periods in which they are recoverable from the employees, with periods up to three years. During the three months ended March 31, 2019 and 2018, we granted \$3.0 million and \$2.5 million, respectively, in sign-on and retention bonuses.

#### Property and Equipment, Net

The components of property and equipment, net were as follows (in thousands):

|                                   | March 31,<br>2019 | December<br>31,<br>2018 |
|-----------------------------------|-------------------|-------------------------|
| Furniture, fixtures and equipment | \$56,944          | \$55,619                |

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|   |           |           |
|---|-----------|-----------|
| Software  | 87,821    | 86,225    |
| Leasehold improvements                          | 47,114    | 47,097    |
| Property and equipment, at cost                 | 191,879   | 188,941   |
| Less: accumulated depreciation and amortization | (130,505) | (125,916) |
| Property and equipment, net                     | \$61,374  | \$63,025  |

During the three months ended March 31, 2019, we invested \$3.0 million in property and equipment.

## Other Current Liabilities

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

|  | March<br>31,<br>2019 | December<br>31,<br>2018 |
|--|----------------------|-------------------------|
| Deferred acquisition liabilities - current | \$ 978               | \$ 969                  |
| Contract liabilities                       | 21,301               | 28,909                  |
| Deferred rent - current                    | -                    | 2,656                   |
| Other current liabilities                  | 482                  | 1,510                   |
| <b>Total other current liabilities</b>     | <b>\$ 22,761</b>     | <b>\$ 34,044</b>        |

## Other Non-Current Liabilities

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

|  | March<br>31,<br>2019 | December<br>31,<br>2018 |
|--|----------------------|-------------------------|
| Deferred acquisition liabilities - non-current | \$ 733               | \$ 710                  |
| Deferred rent - non-current                    | -                    | 21,648                  |
| Other non-current liabilities                  | 3,588                | 2,919                   |
| <b>Total other non-current liabilities</b>     | <b>\$ 4,321</b>      | <b>\$ 25,277</b>        |

Deferred acquisition liabilities, current and non-current, at March 31, 2019 consisted of cash obligations related to definitive and contingent purchase price considerations recorded at fair value and net present value, respectively. See Note 13 – Fair Value for additional information regarding deferred contingent consideration fair value adjustments.

As a result of the adoption of Topic 842, deferred rent amounts as of March 31, 2019 are reflected in the operating lease right-use assets.

At March 31, 2019, other non-current liabilities included \$2.3 million of performance-based long-term incentive compensation liabilities. As part of our long-term incentive program for select senior-level client-service employees and leaders, we grant restricted stock units which typically vest three years from the grant date. The value of equity granted is based on the relative achievement of certain performance targets during the year prior to grant.

Contract liabilities represent advance billings to our clients for services that have not yet been performed and earned. See Note 4 – Revenue Recognition for information on contract liabilities.

## 10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The activity in accumulated other comprehensive loss attributable to Navigant Consulting Inc. was as follows (in thousands):

|   | For the three months ended |             |
|---|----------------------------|-------------|
|   | March 31,                  |             |
|   | 2019                       | 2018        |
| <b>Unrealized loss on foreign exchange:</b>                       |                            |             |
| Balance at beginning of period                                    | \$ (6,529)                 | \$ (19,308) |
| Unrealized (loss) gain on foreign exchange                        | (442 )                     | 1,369       |
| Balance at end of period  | \$ (6,971)                 | \$ (17,939) |
| <b>Unrealized gain on derivatives:</b>                            |                            |             |
| Balance at beginning of period                                    | \$ -                       | \$ 130      |
| Unrealized gain on derivatives in period, net of reclassification | -                          | 250         |
| Reclassified to interest expense                                  | -                          | 10          |
| Income tax expense  | -                          | (3 )        |
| Balance at end of period  | \$ -                       | \$ 387      |
|   | 2019                       | 2018        |
| Accumulated other comprehensive loss at March 31,                 | \$ (6,971)                 | \$ (17,552) |

## 11. LEASES

As described in Note 2 – Recent Accounting Pronouncements above, effective January 1, 2019, we adopted Topic 842. We have operating leases for office space and, to a much lesser extent, we also have operating leases for equipment. Our office leases are typically for terms of between 3 and 10 years. Rents usually increase annually in accordance with defined rent steps or based on current year consumer price index adjustments. Some of the lease agreements contain one or more of the following provisions or clauses: tenant allowances, rent holidays, lease premiums, and rent escalation clauses. For the purpose of recognizing these provisions on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we enter the space and begin to make improvements in preparation of intended use or in the case of a lease modification, the date both parties execute the modification. There are typically no purchase options, residual value guarantees or restrictive covenants. When renewal options exist, we generally do not deem them to be reasonably certain to be exercised, and therefore the amounts are not recognized as part of our lease liability nor our right-of-use asset. In certain cases, we sublease excess office space to third party tenants. We do not recognize liabilities or right-of-use assets for leases with an initial term of 12 months or less.

The components of lease expense were as follows (in thousands):

For the  
Three  
Months  
Ended

|                        | March<br>31,<br>2019 |
|------------------------|----------------------|
| Operating lease cost   | \$5,890              |
| Variable lease costs   | 2,914                |
| Short term lease costs | 289                  |
| Sublease income        | (1,780)              |
| Total net lease cost   | \$7,313              |

Supplemental balance sheet information related to leases:

|   |                      |
|---|----------------------|
|   | March<br>31,<br>2019 |
| Weighted average remaining lease term (in years): |                      |
| Operating leases                                  | 6                    |
| Weighted average discount rate:                   |                      |
| Operating leases                                  | 5.4 %                |

The discount rates applied to each lease reflect our estimated incremental borrowing rate. This includes an assessment of our credit rating to determine the rate that we would have to pay to borrow, on a collateralized basis for a similar term, an amount equal to our lease payments in a similar economic environment.

Supplemental cash flow and other information related to leases was as follows (in thousands):

|   |   |
|---|---|
|   | For the<br>Three<br>Months<br>Ended<br>March<br>31,<br>2019 |
| Cash paid for amounts included in the measurement of lease liabilities: |   |
| Operating cash flows from operating leases                              | \$ 6,714  |

Future minimum lease payments under non-cancellable operating leases were as follows (in thousands):

|  |                      |
|--|----------------------|
|  | March<br>31,<br>2019 |
| 2019 (excluding the three months ended March 31, 2019) | \$20,860             |
| 2020   | 25,452               |
| 2021   | 20,328               |
| 2022   | 14,428               |
| 2023   | 12,612               |
| 2024 and thereafter                                    | 34,798               |
| Total lease payments                                   | \$128,478            |
| Less imputed interest                                  | (20,813 )            |
| Total  | \$107,665            |

As of March 31, 2019, we have additional operating leases that have not yet commenced with obligations of \$2.4 million. These operating leases expected to commence in 2019 with lease terms of 1 year to 5 years.

Future minimum annual lease payments for the years subsequent to December 31, 2018 and in the aggregate were as follows (shown in thousands):



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| Year ending December 31, | Amount    |
|--------------------------|-----------|
| 2019                     | \$27,496  |
| 2020                     | 25,583    |
| 2021                     | 20,742    |
| 2022                     | 14,747    |
| 2023                     | 12,873    |
| Thereafter               | 35,077    |
|                          | \$136,518 |

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Rent expense for operating leases was \$25.3 million for the year ended December 31, 2018.

## 12. BANK DEBT

Our credit agreement provides a \$350 million revolving credit facility. The credit facility becomes due and payable in full upon maturity on March 28, 2022. 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 \$450 million. Borrowings and repayments under the credit facility may be made in multiple currencies including United States (“U.S.”) Dollars, Canadian Dollars, United Kingdom (“U.K.”) Pound Sterling and Euro.

We had no aggregate borrowings outstanding at March 31, 2019 or at December 31, 2018. Based on our financial covenants at March 31, 2019, approximately \$347.0 million in additional borrowings were available to us under the credit facility. At March 31, 2019, we had \$3.0 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 March 31, 2019, 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 0.00% and 1.00%.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.5:1, with certain exceptions as defined in the agreement, and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBIT, as defined in the credit agreement, to cash interest expense) of not less than 2.0:1. At March 31, 2019, under the definitions in the credit agreement, our consolidated leverage ratio was 0.0:1 and our consolidated interest coverage ratio was 63.5:1. In addition, the credit agreement contains customary affirmative and negative covenants (subject to exceptions), including covenants that in certain circumstances limit our ability to incur liens or other encumbrances, make investments and acquisitions, incur indebtedness, enter into mergers, consolidations and asset dispositions, pay cash dividends after the occurrence of an event of default, 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 covenants contained in our credit agreement at March 31, 2019; however, there can be no assurances that we will remain in compliance in the future.

## 13. 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. As circumstances change, we will reassess the level in which the inputs are included in the fair value hierarchy.

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 unaudited 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 together with our corporate development and finance departments. Any change in the fair value estimate is recorded in the earnings of that period.

The following table summarizes the changes in deferred contingent acquisition liabilities (in thousands):

|   | For the three<br>months ended<br>March 31, |         |
|---|--|---------|
|   | 2019                                       | 2018    |
| Beginning Balance   | \$710                                      | \$3,870 |
| Accretion of acquisition-related contingent consideration | 23   | 59      |
| Payments  | -  | (204 )  |
| Ending Balance  | \$733                                      | \$3,725 |

We consider the recorded value of our financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, net and contract assets and accounts payable, to approximate the fair value of the respective assets and liabilities at March 31, 2019 based upon the short-term nature of the assets and liabilities. As of March 31, 2019, we had minimal financial assets and liabilities measured at fair value on a recurring basis.

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. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, which could cause actual results to differ materially from management's expectations. Please see the sections of this report entitled "Forward-Looking Statements" and Part II, Item 1A, "Risk Factors."

Overview

We are a specialized, global professional services firm that helps clients take control of their future. With a focus on markets and clients facing transformational change and significant regulatory or legal pressures, we primarily serve clients in the healthcare, energy and financial services industries.

On August 24, 2018, we completed the disposition of SaleCo to Ankura. The sale represented a strategic shift in our services and in accordance with the applicable guidance the results from operations of SaleCo have been classified as discontinued operations for all periods presented. All other operations are considered "continuing operations" and have been presented in our three remaining segments. See Note 3 — Dispositions and Discontinued Operations to the notes to our unaudited consolidated financial statements for further information.

Revenues and Expenses

Our clients' demand for our services ultimately drives our revenues and expenses. We derive our revenues from fees on services provided. The most common type of contract through which our revenues are generated is on a time and materials basis. 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 event-based or performance-based contractual milestones or outcomes. We estimate and recognize the revenue from such contingent fees over the period of performance to the extent that it is probable that a significant reversal will not occur. Variations in our quarterly or annual revenues and resulting operating profit margins may occur depending on, among other things, our ability to estimate fees associated with contingent outcomes or, in certain contracts, our ability to achieve performance metrics indicative of the value provided to the client, and therefore to be recognized in the period. Revenues are also earned on a per unit or subscription basis.

Our most significant expenses are 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 technology costs, sales and marketing expenses and the direct costs of recruiting and training client-service employees.

Our most significant overhead expenses included in general and administrative expense are administrative compensation and office-related expenses. Administrative compensation includes salaries, incentive compensation, share-based compensation and benefits for corporate management and other non-billable employees that indirectly support client engagements. Office-related expenses primarily consist of rent for our offices. General and administrative expense includes bad debt expense, technology, finance, human capital management, marketing and legal expenses. Certain non-billable employees who support the reporting segments are recorded in cost of services before reimbursable expenses.

We periodically review and adjust our employees' total compensation (which may include 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 for our service offerings

and within the various industries we serve, depending on market conditions.

#### Hiring and Retention

Because our ability to derive fees is largely reliant on the hiring and retention of employees, the average number of full-time employees and our ability to keep client-service employees utilized are important drivers of the business. We use full time equivalent (“FTE”) as a measure of our client-service employees. The number of Client-Service FTE is client-service employees adjusted for part-time employees and project employees 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.

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Client-Service FTE levels and related compensation in excess of demand drive additional costs that can negatively impact operating profit margin. From time to time, we engage independent contractors and hire project employees to supplement our Client-Service FTE 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 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.

## Technology

We continue to invest in technology, data and analytics infrastructure, including machine intelligence and robotics process automation abilities, to support our evolving and expanding technology-based service offerings, and to allow us to deliver more scalable solutions to meet the changing demands of our clients.

## 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. During 2019, we renamed our Technology, Data & Process businesses as “Managed Services” businesses. Managed Services businesses are comprised of technology-enabled professional services, including business process management services and data analytics, 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** — a combination of Consulting FTE and Managed Services FTE defined as follows:

- Consulting FTE — individuals assigned to client services who record time to client engagements; and

• **Managed Services FTE** — individuals in businesses primarily dedicated to maintaining and delivering the services described above that are not included in the average bill rate and average utilization metrics described below.

• **Non-billable FTE** — individuals assigned to administrative support functions, including office services and corporate functions.

• **Centralized Client Support FTE** – individuals providing data analytics and project support to client-related engagements.

• **Period-end FTE** – headcount at the last day of the reporting period, adjusted for part-time status. The criteria described in Consulting FTE, Managed Services FTE and Non-billable FTE also apply to period-end FTE.

• **Average bill rate** is calculated by dividing fee revenues before certain adjustments, such as discounts and markups, by the number of hours associated with the fee revenues. Revenues recognized on the attainment of certain event-driven contractual milestones (event-based) and those related to Managed Services FTE are excluded from average bill rate.

• **Average utilization rate** is calculated by dividing the number of hours of our Consulting 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 annually). Hours related to Managed Services FTE are excluded from average utilization rate.

• **Billable hours** are the number of hours our Consulting FTE recorded to client engagements during the reporting period. Hours related to Managed Services FTE are excluded from billable hours.

• **Segment operating profit** represents total revenues less cost of services excluding long-term compensation expense attributable to Client-Service FTE. Long-term compensation expense attributable to Client-Service FTE includes share-based compensation expense and compensation expense attributable to retention incentives.

All Client-Service FTE, utilization and average bill rate metric data provided in this report exclude the impact of independent contractors and project employees.



## Recent Accounting Pronouncements

See Note 2 — Recent Accounting Pronouncements to the notes to our unaudited consolidated financial statements for further information on our accounting policies and recent accounting pronouncements.

## Additional Highlight

On April 10, 2018, we announced that we formed HSS, a joint venture with Baptist Health South Florida in which we own a 60% interest. The operations, which began in July 2018, are fully consolidated. Through this joint venture, we leverage the business process management services team within the Healthcare segment to help drive efficiencies and improved revenue collection, cash flow and cost management for Baptist Health South Florida's health systems.

## Results of Operations

Key highlights of our results of operations for the three months ended March 31, 2019 compared to the corresponding period in the prior year were:

Revenues before reimbursements ("RBR") increased 15.3% over the prior year period. RBR increased mainly due to the increase in Healthcare and Energy consulting services as well as the HSS joint venture, which were partially offset by lower RBR within our Financial Services Advisory and Compliance segment. Event-based fees for the three months ended March 31, 2019 and 2018 were \$8.1 million and \$3.3 million, respectively, mainly due to the HSS joint venture. Cost of services before reimbursable expenses increased 15.8% mainly due to the HSS joint venture and hiring that occurred during the second half of 2018 within the Financial Services Advisory and Compliance segment. General and administrative expenses decreased 5.2% mainly due to lower bad debt expense. Our effective income tax rate for the three months ended March 31, 2019 and 2018 was 30.9% and (16.4)%, respectively. Net income attributable to Navigant Consulting, Inc. for the three months ended March 31, 2019 and 2018 was \$4.3 million and \$11.9 million, respectively.

|                               | For the three<br>months ended<br>March 31, |       | 2019 over<br>2018                    |
|-------------------------------|--|-------|--------------------------------------|
|                               | 2019                                       | 2018  | Increase<br>(Decrease)<br>Percentage |
| <b>Key operating metrics:</b> |  |       |                                      |
| <b>Average FTE</b>            |  |       |                                      |
| -Consulting                   | 1,403                                      | 1,372 | 2.3                                  |
| -Managed Services             | 3,698                                      | 2,874 | 28.7                                 |
| -Centralized Client Support   | 138  | 79    | 74.7                                 |
| -Non-billable                 | 797  | 732   | 8.9                                  |
| <b>Period end FTE</b>         |  |       |                                      |
| -Consulting                   | 1,393                                      | 1,355 | 2.8                                  |
| -Managed Services             | 3,743                                      | 2,800 | 33.7                                 |
| -Centralized Client Support   | 138  | 80    | 72.5                                 |
| -Non-billable                 | 804  | 740   | 8.6                                  |

|                   |       |      |        |   |
|-------------------|-------|------|--------|---|
| Average bill rate | \$256 | 259  | (1.2   | ) |
| Utilization       | 71    | % 73 | % (2.7 | ) |

### Key Operating Metrics

Average FTE – Consulting increased 2.3% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, respectively. The increase was due to hiring in all three segments and was partially offset by the transfer of certain Consulting FTE to the newly formed Centralized Client Support group in the first quarter of 2019. Average Managed Services FTE increased 28.7% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, mainly due to HSS FTE. Utilization levels were 71% and 73% for the three months ended March 31, 2019 and 2018, respectively, for all three segments combined. Average bill rate decreased 1.2% to \$256 over the same periods, primarily attributable to project mix. Centralized Client Support was formed in the three months ended March 31, 2019. This FTE group includes individuals in our data analytics and robotics process automation centers of excellence that were previously classified as Non-Billable FTEs (which has been recast in prior period FTE reported above), as well as some data analytics resources that were previously de-centralized and included in Consulting FTEs (which is not recast in prior period FTE data reported above). The increase in average Centralized Client Support FTE primarily

relates to the centralization of an analytic team located both in the U.S. and in India, which was done to create cross-company efficiencies for corporate and practice support functions and not recast in prior period FTE. The prior periods' Non-Billable FTE data now reported as Centralized Client Support has been recast to conform to the current period presentation.

Results for the three months ended March 31, 2019 compared to the three months ended March 31, 2018

Revenue before Reimbursements. See segment results below for further discussion on RBR.

Cost of Services before Reimbursable Expenses. Cost of services before reimbursable expenses increased 15.8% for the three months ended March 31, 2019 compared to three months ended March 31, 2018, mainly due to increased wages and benefits expense relating to recent hires and the formation of HSS. Severance expense relating to Client-Service FTE was \$0.6 million and \$1.8 million for the three months ended March 31, 2019 and 2018, respectively.

General and Administrative Expenses. General and administrative expenses decreased 5.2% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 mainly due to a decrease in bad debt expense. Bad debt expense for the three months ended March 31, 2019 and 2018 was \$0.4 million and \$1.9 million, respectively. Severance expense for the three months ended March 31, 2019 and 2018 was \$0.1 million and nil, respectively.

General and administrative expenses as a percent of RBR were 18.9% for the three months ended March 31, 2019 as compared to 23.0% for the three months ended March 31, 2018. The decrease mainly relates to the increase in RBR as well as the reduction in bad debt expense for the three months ending March 31, 2019 compared to March 31, 2018. In addition, we continue to incur expenses for resources to support the transition services agreement with Ankura, which are offset by reimbursements per the agreement.

Depreciation Expense. Depreciation expense decreased 8.2% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, mainly due to a decrease resulting from fully depreciated computer software and hardware.

Amortization Expense. Amortization expense decreased 21.7% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The decrease was primarily due to reduced amortization relating to certain intangible assets as their useful lives came to term, partially offset by the allocation of purchase price to intangible assets of recent acquisitions.

Interest Expense. Interest expense decreased 61.6% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, primarily due to the repayment of debt in the third quarter of 2018 using proceeds from the SaleCo transaction.

Interest Income. Interest income increased 479.0% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 mainly due to higher cash equivalents balances in the current year period from the proceeds of the SaleCo transaction.

Income Tax Expense. Our effective income tax rate fluctuates based on the mix of income earned in various tax jurisdictions, including U.S. state and foreign jurisdictions.

The effective income tax rate on a continuing operations basis for the three months ended March 31, 2019 and 2018 was 30.9% and (16.4)%, respectively. The increase in the effective income tax rate for the three months ended March

31, 2019 is a direct result of increased earnings compared to the corresponding period in 2018, when the company had incurred a pre-tax loss from continuing operations of approximately \$1.4 million. The effective tax rate is negative for the three months ended March 31, 2018 primarily as a result of the amounts recorded as tax expense for an IRS audit settlement estimate made in the period for the 2014 tax year.

Income from discontinued operations, net of tax. Income from discontinued operations, net of tax decreased \$13.9 million for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to the divestiture of SaleCo which was completed in the third quarter of 2018 (See Note 3 – Dispositions and Discontinued Operations to the notes to our unaudited consolidated financial statements).

#### Segment Results

Our operating segments are the same as our reporting segments, and our performance is assessed and resources are allocated based on the following three reporting segments:

Healthcare

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## Energy

### Financial Services Advisory and Compliance

The following information includes segment RBR, segment total revenues and segment operating profit all on a continuing operations basis. 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 (see Note 5 — Segment Information to the notes to our unaudited consolidated financial statements). Segment operating profit represents total revenues less cost of services excluding long-term compensation expense attributable to client-service employees. Long-term compensation expense attributable to client-service employees includes share-based compensation expense and compensation expense related to retention incentives (see Note 9 — Supplemental Consolidated Balance Sheet Information to the notes to our unaudited consolidated financial statements). Key operating metric definitions are provided above.

The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses.

## Healthcare

|  | For the three month<br>ended March 31, |           | 2019 over<br>2018<br>Increase<br>(Decrease)<br>Percentage |
|--|--|-----------|---|
|  | 2019                                   | 2018      |   |
| Revenues before reimbursements (in 000s)       | \$ 119,003                             | \$ 90,149 | 32.0  |
| Total revenues (in 000s)                       | \$ 126,569                             | \$ 98,712 | 28.2  |
| Segment operating profit (in 000s)             | \$ 36,755                              | \$ 20,390 | 80.3  |
| Key segment operating metrics:                 |  |           |   |
| Segment operating profit margin                | 30.9                                   | % 22.6    | % 36.7  |
| Average FTE - Consulting                       | 655                                    | 648       | 1.1   |
| Average FTE - Managed Services                 | 3,393                                  | 2,706     | 25.4  |
| Average utilization rates based on 1,850 hours | 76                                     | % 71      | % 7.0   |
| Average bill rate                              | \$ 283                                 | \$ 263    | 7.6   |

The Healthcare segment provides strategic, performance improvement, and business process management solutions. Clients of this segment include healthcare providers, physician enterprises, payers, government agencies and life sciences companies. We help clients respond to market legislative changes such as the shift to an outcomes and value-based reimbursements model, ongoing industry consolidation and reorganization, Medicaid expansion, the implementation of a new electronic health records system and product planning and commercialization expertise.

Three months ended March 31, 2019 compared to corresponding period in 2018

RBR for this segment increased 32.0% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The segment experienced increases in RBR resulting from higher demand and converted sales pipeline from consulting engagements and contributions from our managed services, including strong performance and event-based fees from HSS. Event-based fees were \$8.1 million and \$3.2 million for the three months ended March 31, 2019 and March 31, 2018, respectively.

Average FTE – Consulting increased 1.1% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to a small group hire in January 2019. Average FTE – Managed Services increased 25.4% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 mainly due to the formation of HSS. Consulting utilization increased 7.0% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to higher demand for consulting engagements. Average bill rate increased 7.6% to \$283, mainly due to a change in project mix.

For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, segment operating profit and segment operating profit margin increased \$16.4 million and 8.3 percentage points, respectively, mainly due to the higher demand for consulting services as well as growth at HSS. In addition, severance expense for the three months ended March 31, 2019 and 2018 was \$0.1 million and \$1.6 million, respectively.

## Energy

|  | For the three month<br>ended March 31, |           | 2019 over<br>2018<br>Increase<br>(Decrease)<br>Percentage |
|--|--|-----------|---|
|  | 2019                                   | 2018      |   |
| Revenues before reimbursements (in 000s)       | \$ 36,249                              | \$ 33,704 | 7.6   |
| Total revenues (in 000s)                       | \$ 43,700                              | \$ 37,637 | 16.1  |
| Segment operating profit (in 000s)             | \$ 10,410                              | \$ 10,728 | (3.0 )  |
| Key segment operating metrics:                 |  |           |   |
| Segment operating profit margin                | 28.7 %                                 | 31.8 %    | (9.7 )  |
| Average FTE - Consulting                       | 445                                    | 437       | 1.8   |
| Average FTE - Managed Services                 | 59                                     | 57        | 3.5   |
| Average utilization rates based on 1,850 hours | 68 %                                   | 68 %      | -   |
| Average bill rate                              | \$ 200                                 | \$ 215    | (7.0 )  |

The Energy segment provides full lifecycle solutions that help clients transform their businesses in a rapidly changing energy environment, manage complexity and accelerate operational performance, meet compliance requirements, and transform their organizations and systems. In addition, we provide a broad array of benchmarking, data and market research capabilities related to the energy sector.

Three months ended March 31, 2019 compared to corresponding period in 2018

RBR for this segment increased 7.6% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. Increases were seen across the segment as demand from global commercial clients and government work remained strong.

Average FTE – Consulting increased 1.8% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to hiring to meet future anticipated demand, partially offset by FTE transferred to the Centralized Client Support group. Utilization remained flat for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. Average bill rate decreased 7.0% to \$200, mainly due to project mix.

For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, segment operating profit and segment operating profit margin decreased \$0.3 million and 3.1 percentage points, respectively, mainly due to the impact of an all-hands segment meeting in the current year period.

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Financial Services Advisory and Compliance

|  | For the three months<br>ended<br>ended March 31, |           | 2019 over<br>2018                    |
|--|--|-----------|--------------------------------------|
|  | 2019   | 2018      | Increase<br>(Decrease)<br>Percentage |
| Revenues before reimbursements (in 000s)       | \$ 30,877  | \$ 37,592 | (17.9 )                              |
| Total revenues (in 000s)                       | \$ 32,593  | \$ 41,719 | (21.9 )                              |
| Segment operating profit (in 000s)             | \$ 5,231   | \$ 14,836 | (64.7 )                              |
| Key segment operating metrics:                 |  |           |                                      |
| Segment operating profit margin                | 16.9 %   | 39.5 %    | (57.2 )                              |
| Average FTE - Consulting                       | 303  | 287       | 5.6                                  |
| Average FTE - Managed Services                 | 246  | 111       | 121.6                                |
| Average utilization rates based on 1,850 hours | 63 %   | 84 %      | (25.0 )                              |
| Average bill rate                              | \$ 274   | \$ 302    | (9.3 )                               |



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

Three months ended March 31, 2019 compared to corresponding period in 2018

RBR for this segment decreased 17.9% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The decrease in RBR was primarily due to a faster-than-expected wind-down of a large monitorship engagement, simultaneous curtailed spending from a number of larger clients and continued start-up delays on certain new engagements during the first quarter of 2019. Segment leadership continues to be focused on conversion of pipeline into backlog of new engagements.

Average FTE – Consulting increased 5.6% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to hiring in the prior year. Average FTE – Managed Services increased 121.6% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to hiring for a new managed services engagement to outsource a client’s anti-money laundering and transaction monitoring capabilities. Utilization decreased 25.0% for the three months ended March 31, 2019 compared to the three months ended March 31, 2018, mainly due to the particularly high level in the prior year as well as the lower volume of work in the first quarter of 2019 discussed above. Average bill rate decreased 9.3% to \$274 for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to project mix.

For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, segment operating profit decreased \$9.6 million and segment operating profit margin decreased 22.6 percentage points driven by lower RBR and higher wages and benefits relating to the increased FTE levels and costs of investments for future growth, including senior hires.

#### Liquidity and Capital Resources

Our cash flow activities were as follows (in thousands) for the three months ended March 31,

|   | 2019       | 2018       |
|---|------------|------------|
| Net cash used in operating activities               | \$(31,139) | \$(34,847) |
| Net cash used in investing activities               | \$(9,007 ) | \$(5,750 ) |
| Net cash (used in) provided by financing activities | \$(59,537) | \$38,818   |

Generally, our primary sources of cash are cash flows from operations and borrowings under our credit facility. First quarter operating cash requirements are generally higher due to payment of our annual incentive bonuses while subsequent quarters’ operating cash requirements are generally lower. Our cash equivalents are primarily limited to money market accounts or ‘A’ rated securities, with maturity dates of 90 days or less.

We calculate accounts receivable days sales outstanding (“DSO”) by dividing the accounts receivable balance, net of reserves and deferred revenue credits, at the end of the quarter, by daily revenues. Daily revenues are calculated by

taking quarterly revenue divided by 90 days, approximately equal to the number of days in a quarter. DSO was 73 days at March 31, 2019.

#### Operating Activities

Net cash used in operating activities was \$31.1 million and \$34.8 million for the three months ended March 31, 2019 and 2018, respectively. Cash used by operating activities during the first quarter 2019 decreased compared to the prior year's comparable period due to a reduction in the amounts invested in working capital, which was partially offset by lower net income in the current year period.

#### Investing Activities

Net cash used by investing activities was \$9.0 million and \$5.8 million for the three months ended March 31, 2019 and 2018, respectively. The increase was primarily due to acquisition related activities during the current year's period.

#### Financing Activities

Net cash used in financing activities was \$59.5 million for the three months ended March 31, 2019 compared to cash provided by financing activities of \$38.8 million for the three months ended March 31, 2018. The three months ended March 31, 2018 include borrowings due to bonus payments, while during the three months ended March 31, 2019 we used excess cash for such purposes.

Common stock purchases using excess cash were \$42.1 million higher for the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The three months ended March 31, 2019 include a \$2.0 million dividend payment, as we started paying dividends in the third quarter of 2018.

#### Debt, Commitments and Capital

For further information regarding our debt, see Note 12 – Bank Debt to the notes to our unaudited consolidated financial statements. For further information regarding our lease commitments, see Note 11 – Leases to the notes to our unaudited consolidated financial statements.

Since the inception of our share repurchase program through March 31, 2019, we have repurchased an aggregate of 18,165,750 shares of our common stock for approximately \$335.2 million. At March 31, 2019, we had approximately \$24.7 million remaining for share repurchases under the board authorization effective May 7, 2018. On April 18, 2019, our board of directors amended the existing program, allowing for the repurchase of up to \$175.0 million of our common stock effective as of May 1, 2019 through December 31, 2021. See Part II, Item 2 of this report for additional information on the share repurchases made during the three months ended March 31, 2019.

We believe that our current cash and cash equivalents, future cash flows from operations and borrowings under our credit facility will provide adequate liquidity to fund anticipated short-term and long-term operating activities. However, in the event we make significant cash expenditures in the future for major acquisitions or other unanticipated activities, we may require more liquidity than is currently available to us under our credit facility and may need to raise additional funds through debt or equity financing, as appropriate. In addition, if our lenders are not able to fund their commitments due to disruptions in the financial markets or otherwise, our liquidity could be negatively impacted.

#### Off-balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future impact on our financial condition or results of operations.

#### Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” in our 2018 Form 10-K.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

At March 31, 2019, our cash equivalents were primarily limited to money market accounts or ‘A’ rated securities, with maturity dates of 90 days or less. These financial instruments are subject to interest rate risk and will decline in value if interest rates rise. Because of the short periods to maturity of these instruments, an increase in interest rates would not have a material effect on our financial position or results of operations.

We operate in various foreign countries, which exposes us to market risk associated with foreign currency exchange rate fluctuations. At March 31, 2019, we had net assets of approximately \$16.5 million with a functional currency of the Canadian Dollar and \$11.0 million with a functional currency of the Euro and \$3.7 million with a functional currency of the U.K. Pound Sterling related to our non-U.S. operations. At March 31, 2019, we had net assets denominated in non-functional currencies of approximately \$3.7 million. As such, a ten percent change in the value of the local currencies would have resulted in a \$0.4 million foreign currency gain or loss in our results of operations.

Excess cash balances held outside the U.S. are immaterial to our overall financial position, and therefore, we have limited exposure to repatriating funds back to the U.S.

Item 4. Controls and Procedures.

(1) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (“Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time frames specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal

financial officer, as appropriate, to allow timely decisions regarding required disclosure. Any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

An evaluation of the effectiveness of the design and operation of the disclosure controls and procedures, as of the end of the period covered by this report, was made under the supervision and with the participation of our management including our principal executive officer and principal financial officer. Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective.

We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of Topic 842 to facilitate the adoption on January 1, 2019, as well as our on-going accounting. There have been no other significant changes in our internal control over financial reporting during the first quarter of 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings.

We are a party to a variety of legal proceedings that arise in the normal course of our business. While the results of these legal proceedings cannot be predicted with certainty, we believe that the final outcome of these proceedings will not have a material adverse effect, individually or in the aggregate, on our results of operations or financial condition.

## Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A, “Risk Factors” in our 2018 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth repurchases of our common stock during the first quarter of 2019:

| Period           | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs (a) |
|------------------|----------------------------------|------------------------------|--|--|
| Jan 1 - 31, 2019 | 756,931                          | \$ 24.75                     | 756,931  | \$59,416,340   |
| Feb 1 - 28, 2019 | 600,941                          | \$ 26.16                     | 600,941  | \$43,695,844   |
| Mar 1 - 31, 2019 | 958,998                          | \$ 19.85                     | 958,998  | \$24,660,140   |
| Total            | 2,316,870                        | \$ 23.09                     | 2,316,870  | \$24,660,140   |

(a) On April 18, 2019, our board of directors amended the existing program, allowing for the repurchase of up to \$175.0 million of our common stock effective as of May 1, 2019 through December 31, 2021.

## Item 6. Exhibits.

The following exhibits are filed with this report:

## Exhibit

No. Description

- 31.1 Certification of Chief Executive Officer required by Rule 13a-14 of the Securities Exchange Act.
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.
- 101 Interactive Data File.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Navigant Consulting, Inc.

By: /s/ JULIE M.  
HOWARD  
Julie M. Howard  
Chairman and Chief  
Executive Officer

By: /s/ STEPHEN  
R.  
LIEBERMAN  
Stephen R. Lieberman  
Executive Vice President  
and

Chief Financial Officer

Date: April 26, 2019