

NAVIGANT CONSULTING INC
Form 10-Q
July 29, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

Commission File No. 1-12173

Navigant Consulting, Inc.

(Exact name of Registrant as specified in its charter)

Delaware **36-4094854**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606
(Address of principal executive offices, including zip code)
(312) 573-5600
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of July 27, 2015, 47,894,058 shares of the registrant's common stock, par value \$.001 per share, were outstanding.

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| Forward-Looking Statements | |

Statements included in this report which are not historical in nature are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may generally be identified by words such as anticipate, believe, intend, estimate, expect, plan, outlook and similar expressions. We caution readers that there may be events in the future that we are not able to accurately predict or control and the information contained in the forward-looking statements is inherently uncertain and subject to a number of risks that could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the factors described in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 and Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations in this report. We cannot guarantee any future results, levels of activity, performance or achievement, and we undertake no obligation to update any of the forward-looking statements contained in this report.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****NAVIGANT CONSULTING, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

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

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

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**NAVIGANT CONSULTING, INC. AND SUBSIDIARIES****UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands, except per share data)**

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

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

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands)

| | Common Stock Shares | Treasury Stock Shares | Common Stock Par Value | Additional Paid-In Capital | Treasury Stock Cost | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Stock- holders Equity |
|---|---------------------------|-----------------------------|---------------------------------|----------------------------------|---------------------------|---|----------------------|-----------------------------------|
| Balance at December 31, 2014 | 63,708 | (15,491) | \$ 64 | \$ 611,882 | \$ (275,608) | \$ (12,084) | \$ 218,337 | \$ 542,591 |
| Comprehensive income (loss) | | | | | | (353) | 32,970 | 32,617 |
| Issuances of common stock | 412 | | | 4,894 | | | | 4,894 |
| Tax benefits on stock options exercised and restricted stock units vested | | | | 239 | | | | 239 |
| Vesting of restricted stock and restricted stock units, net of forfeitures and tax withholdings | 246 | | | (1,571) | 5 | | | (1,566) |
| Share-based compensation expense | | | | 5,524 | | | | 5,524 |
| Additional paid-in capital recorded through compensation expense | | | | 1,292 | | | | 1,292 |
| Repurchases of common stock | | (848) | | | (12,081) | | | (12,081) |
| Balance at June 30, 2015 | 64,366 | (16,339) | \$ 64 | \$ 622,260 | \$ (287,684) | \$ (12,437) | \$ 251,307 | \$ 573,510 |

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

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