NAVIGANT CONSULTING INC
Form 10-Q
October 25, 2016
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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 September 30, 2016

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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

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

(Address of principal executive offices, including zip code)

(312) 573-5600

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (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 October 21, 2016, 47,062,293 shares of the registrant s common stock, par value $.001 per share, were outstanding.

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Forward-Looking Statements

Statements included in this report which are not historical in nature are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may generally be identified by words such as anticipate, believe, intend, estimate, expect, plan, outlook and similar expressions. We caution rea there may be events in the future that we are not able to accurately predict or control and the information contained in the forward-looking statements is inherently uncertain and subject to a number of risks that could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the factors described in the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015. We cannot guarantee any future results, levels of activity, performance or achievement, and we undertake no obligation to update any of the forward-looking statements contained in this report.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,044	$ 8,895
Accounts receivable, net	272,254	216,660
Prepaid expenses and other current assets	27,989	29,729
Total current assets	307,287	255,284
Non-current assets:		
Property and equipment, net	69,833	76,717
Intangible assets, net	30,502	38,160
Goodwill	624,454	623,204
Other assets	18,660	22,531
Total assets	$ 1,050,736	$ 1,015,896
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,460	$ 9,497
Accrued liabilities	11,583	10,719
Accrued compensation-related costs	91,616	91,577
Income tax payable	12,772	
Other current liabilities	36,566	32,147
Total current liabilities	162,997	143,940
Non-current liabilities:		
Deferred income tax liabilities	80,189	75,719
Other non-current liabilities	20,649	28,956
Bank debt non-current	161,208	173,743
Total non-current liabilities	262,046	278,418

Total liabilities	425,043	422,358
Stockholders equity:		
Common stock	57	64
Additional paid-in capital	640,083	627,976
Treasury stock	(175,105)	(296,624)
Retained earnings	182,964	278,682
Accumulated other comprehensive loss	(22,306)	(16,560)
Total stockholders equity	625,693	593,538
Total liabilities and stockholders equity	$ 1,050,736	$ 1,015,896

See accompanying notes to unaudited consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Revenues before reimbursements	$ 237,115	$ 209,634	$ 699,075	$ 621,813
Reimbursements	24,294	20,624	69,304	65,055
Total revenues	261,409	230,258	768,379	686,868
Cost of services before reimbursable expenses	156,061	141,731	467,967	425,699
Reimbursable expenses	24,294	20,624	69,304	65,055
Total cost of services	180,355	162,355	537,271	490,754
General and administrative expenses	42,126	36,629	126,464	111,362
Depreciation expense	7,008	5,954	20,545	17,033
Amortization expense	2,905	2,084	8,717	6,650
Other operating costs (benefit):				
Contingent acquisition liability adjustments, net	480		1,330	(12,625)
Office consolidation, net			174	2,740
Loss on disposition of assets		283		283
Other impairment				98
Operating income	28,535	22,953	73,878	70,573
Interest expense	1,310	1,018	3,999	3,988
Interest income	(35)	(77)	(110)	(178)
Other income, net	(350)	(328)	(1,134)	(480)
Income before income tax expense	27,610	22,340	71,123	67,243
Income tax expense	10,435	8,164	26,529	20,097
Net income	$ 17,175	$ 14,176	$ 44,594	$ 47,146
Basic net income per share	$ 0.36	$ 0.30	$ 0.94	$ 0.98
Shares used in computing basic per share data	47,369	47,835	47,448	48,036
Diluted net income per share	$ 0.35	$ 0.29	$ 0.91	$ 0.96
Shares used in computing diluted per share data	48,763	49,155	48,878	49,297
Net income	$ 17,175	$ 14,176	$ 44,594	$ 47,146
Other comprehensive loss, net of tax				
Unrealized net loss, foreign currency translation	(1,752)	(2,723)	(5,741)	(2,967)
Unrealized net gain (loss) on interest rate derivatives	69	(186)	(138)	(450)

Reclassification adjustment on interest rate derivatives included in interest expense and income tax expense	41	81	133	236
Other comprehensive loss, net of tax	(1,642)	(2,828)	(5,746)	(3,181)
Total comprehensive income, net of tax	$ 15,533	$ 11,348	$ 38,848	$ 43,965

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 Loss	Retained Earnings	Total Stock-holders Equity
Balance at December 31, 2015	64,465	(16,903)	$ 64	$ 627,976	$ (296,624)	$ (16,560)	$ 278,682	$ 593,538
Comprehensive income (loss)						(5,746)	44,594	38,848
Issuances of common stock	255			3,568				3,568
Tax benefits on stock options exercised and restricted stock units vested				1,086				1,086
Vesting of restricted stock units, net of forfeitures and tax withholdings	551		1	(3,930)				(3,929)
Share-based compensation expense				9,445				9,445
Additional paid-in capital recorded through compensation expense				1,938				1,938
Repurchases of common stock		(1,145)			(18,801)			(18,801)
Treasury stock retirement	(8,000)	8,000	(8)		140,320		(140,312)	
Balance at September 30, 2016	57,271	(10,048)	$ 57	$ 640,083	$ (175,105)	$ (22,306)	$ 182,964	$ 625,693

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 nine months ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 44,594	$ 47,146
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	20,545	17,033
Amortization expense	8,717	6,650
Amortization expense client-facing software	526	676
Share-based compensation expense	9,445	8,206
Accretion of interest expense	526	1,164
Deferred income taxes	625	6,710
Allowance for doubtful accounts receivable	7,006	1,692
Contingent acquisition liability adjustments, net	1,330	(12,625)
Other, net	33	520
Changes in assets and liabilities (net of acquisitions and dispositions):		
Accounts receivable	(63,917)	(35,687)
Prepaid expenses and other assets	5,315	(7,717)
Accounts payable	959	(2,685)
Accrued liabilities	1,084	2,171
Accrued compensation-related costs	296	(3,748)
Income taxes payable	16,940	979
Other liabilities	1,607	3,618
Net cash provided by operating activities	55,631	34,103
Cash flows from investing activities:		
Purchases of property and equipment	(13,464)	(31,160)
Acquisitions of businesses, net of cash acquired	(7,995)	(21,379)
Other acquisition payments	(5,500)	
Payments of acquisition liabilities	(1,165)	(2,196)
Capitalized client-facing software	(459)	(611)
Net cash used in investing activities	(28,583)	(55,346)
Cash flows from financing activities:		
Issuances of common stock	3,568	5,488
Repurchases of common stock	(18,801)	(18,207)
Payments of contingent acquisition liabilities	(828)	(592)
Repayments to banks	(308,726)	(230,633)
Borrowings from banks	298,847	268,014

Other, net		(2,802)		(1,299)
Net cash (used in) provided by financing activities		(28,742)		22,771
Effect of exchange rate changes on cash and cash equivalents		(157)		(159)
Net (decrease) increase in cash and cash equivalents		(1,851)		1,369
Cash and cash equivalents at beginning of the period		8,895		2,648
Cash and cash equivalents at end of the period	$	7,044	$	4,017

Supplemental Unaudited Consolidated Cash Flow Information

	For the nine months ended September 30,			
	2016		**2015**	
Interest paid	$	3,008	$	2,368
Income taxes paid, net of refunds	$	7,004	$	11,630

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. 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.

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 nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2016.

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, 2015 included in our Annual Report on Form 10-K filed with the SEC on February 16, 2016 (2015 Form 10-K). During the first quarter of 2016, we renamed two of our business segments. The Disputes, Investigations & Economics segment was renamed Disputes, Forensics & Legal Technology, and the Financial, Risk & Compliance segment was renamed Financial Services Advisory and Compliance. Other than the changes to the names of these segments, the characteristics of the business segments remain unchanged.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited consolidated financial statements and the related notes. Actual results could differ from those estimates and may affect future results of operations and cash flows. We have evaluated events and transactions occurring after the balance sheet date and prior to the date of the filing of this report.

2. ACQUISITIONS

2016 Acquisitions

During the nine months ended September 30, 2016, we acquired two small businesses, for an aggregate purchase price of $9.5 million, of which $8.0 million was paid in cash at closing. These acquired businesses were integrated into our Healthcare segment and were not significant to our consolidated financial statements.

2015 Acquisitions

On December 31, 2015, we acquired McKinnis Consulting Services, LLC (McKinnis) to further expand our healthcare business. McKinnis specialized in providing revenue cycle assessment, strategy and optimization assistance for healthcare providers. The acquisition included approximately 70 professionals and was integrated into our Healthcare segment. We paid $45.7 million at closing, including $42.7 million in cash (net of cash acquired) and $3.0 million (or 176,758 shares) in our common stock. The purchase agreement also provides for a deferred contingent acquisition payment to the selling members of McKinnis in an amount up to $10.0 million based on the business achieving certain performance targets over the one-year period ending December 31, 2016. We estimated the fair value of the deferred contingent consideration on the closing date to be $8.3 million which was recorded in other non-current liabilities at net present value using a risk-adjusted discount rate. Based on a recent forecast of the business operating performance, we increased the fair value of the deferred contingent acquisition liability to $9.8 million during the nine months ended September 30, 2016. Terms of the purchase agreement also included a provision for a working capital adjustment to be calculated within 90 days of the closing, including a $5.5 million payment to the selling members for undistributed cash held in the business as of the closing. The $5.5 million payment was made during the three months ended March 31, 2016 and the working capital adjustment was finalized and settled during the three months ended June 30, 2016. As part of our purchase price allocation, we recorded $13.0 million in identifiable intangible assets, $45.5 million in goodwill and other net assets of $1.0 million.

On February 23, 2015, we acquired RevenueMed, Inc. (RevenueMed) to expand the business process management service capabilities within our Healthcare segment. RevenueMed specialized in providing coding, revenue cycle management, and business process management services to healthcare providers. This acquisition included approximately 1,500 professionals primarily located in India and was integrated into the Technology, Data & Process business within our Healthcare segment. We paid $21.3 million in cash (net of cash acquired) at closing. The purchase agreement also provided for a deferred contingent acquisition payment to the selling stockholders of RevenueMed in an amount up to $4.0 million based on the business achieving certain performance targets over the six-month period beginning January 1, 2015 and ending June 30, 2015. We estimated the fair value of the deferred contingent consideration on the closing date to be $3.8 million which was recorded in other current liabilities at net present value using a risk-adjusted discount rate. Based on the acquired business operating results during the performance period, the maximum performance target was achieved, and on October 1, 2015, a $4.0 million cash payment was made to settle the contingent acquisition liability. As

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part of our purchase price allocation, we recorded $7.3 million in identifiable intangible assets, $14.4 million in goodwill, $1.4 million of internally developed software and other net assets of $2.6 million. Other net assets included a liability for uncertain tax positions of $1.3 million, and based on the indemnification terms of the purchase agreement, which entitles us to indemnification if tax is due, an offsetting receivable from RevenueMed was recorded in prepaid expenses and other current assets.

See Note 11 Fair Value for additional information regarding deferred contingent consideration fair value adjustments.

Pro Forma Information

The following supplemental unaudited pro forma financial information was prepared as if our 2016 and 2015 acquisitions had occurred as of January 1, 2015. The following table was prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisitions been made at that time or of results which may occur in the future (in thousands, except per share data).

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Total revenues	$ 261,929	$ 237,935	$ 770,517	$ 712,017
Net income	$ 17,184	$ 14,748	$ 44,638	$ 48,798
Basic net income per basic share	$ 0.36	$ 0.31	$ 0.94	$ 1.01
Shares used in computing net income per basic share	47,369	48,011	47,448	48,212
Diluted net income per diluted share	$ 0.35	$ 0.30	$ 0.91	$ 0.99
Shares used in computing net income per diluted share	48,763	49,331	48,878	49,473

3. SEGMENT INFORMATION

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

The **Disputes, Forensics & Legal Technology** (formerly Disputes, Investigations & Economics) segment s professional services include accounting, regulatory, construction and computer forensic expertise, as well as valuation and economic analysis. In addition to these capabilities, our professionals use technological tools to perform eDiscovery services and to deliver custom technology and data analytic solutions. The clients of this segment principally include companies along with their in-house counsel and law firms, as well as accounting firms, corporate boards and government agencies.

The **Financial Services Advisory and Compliance** (formerly Financial, Risk & Compliance) segment provides strategic, operational, valuation, 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, valuation and restructuring consulting, litigation support and tax compliance services to clients in a broad variety of industries.

The **Healthcare** segment provides consulting services and business process management services. Clients of this segment include healthcare providers, payers 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, and the implementation of a new electronic health records system.

The **Energy** segment provides management advisory services to utility, government and commercial clients. We focus on creating value for our clients by assisting in their implementation of strategy and new business models and creating sustainable excellence in areas such as investment management, integrated resource planning, renewables, distributed energy resources, energy efficiency and demand response, and transmission and distribution operations. In addition, we provide a broad array of benchmarking and research services.

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 6 Share-Based Compensation Expense and Note 7 Supplemental Consolidated Balance Sheet Information).

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Revenues before reimbursements:				
Disputes, Forensics & Legal Technology	$ 77,368	$ 80,099	$ 237,950	$ 237,808
Financial Services Advisory and Compliance	40,265	28,302	113,909	92,754
Healthcare	91,046	74,500	262,589	212,739
Energy	28,436	26,733	84,627	78,512
Total revenues before reimbursements	$ 237,115	$ 209,634	$ 699,075	$ 621,813
Total revenues:				
Disputes, Forensics & Legal Technology	$ 82,909	$ 86,826	$ 254,990	$ 255,552
Financial Services Advisory and Compliance	46,391	31,069	128,658	107,808
Healthcare	100,033	80,821	288,521	230,802
Energy	32,076	31,542	96,210	92,706
Total revenues	$ 261,409	$ 230,258	$ 768,379	$ 686,868
Segment operating profit:				
Disputes, Forensics & Legal Technology	$ 26,099	$ 28,445	$ 83,772	$ 78,435
Financial Services Advisory and Compliance	17,682	10,383	48,699	36,654
Healthcare	31,896	24,091	85,026	67,073
Energy	8,336	7,698	23,452	23,133
Total segment operating profit	84,013	70,617	240,949	205,295
Segment reconciliation to income before income tax expense:				
Reconciling items:				
General and administrative expenses	42,126	36,629	126,464	111,362
Depreciation expense	7,008	5,954	20,545	17,033
Amortization expense	2,905	2,084	8,717	6,650
Other operating costs (benefit), net	480	283	1,504	(9,504)
Long-term compensation expense attributable to client-service employees (including share-based compensation expense)	2,959	2,714	9,841	9,181
Operating income	28,535	22,953	73,878	70,573
Interest and other expense, net	925	613	2,755	3,330
Income before income tax expense	$ 27,610	$ 22,340	$ 71,123	$ 67,243

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

	September 30, 2016	December 31, 2015
Disputes, Forensics & Legal Technology	$ 346,572	$ 332,772
Financial Services Advisory and Compliance	106,017	88,956
Healthcare	383,664	379,032
Energy	118,716	108,630
Unallocated assets	95,767	106,506
Total assets	$ 1,050,736	$ 1,015,896

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4. GOODWILL AND INTANGIBLE ASSETS, NET

Changes made to our goodwill balances during nine months ended September 30, 2016 and the year ended December 31, 2015 are as follows (in thousands):

	Disputes, Forensics & Legal Technology	Financial Services Advisory and Compliance	Healthcare	Energy	Total Company
Gross goodwill at December 31, 2015	$ 354,604	$ 55,341	$ 264,163	$ 76,566	$ 750,674
Acquisitions			7,759		7,759
Dispositions					
Adjustments	(115)	(26)	(9)		(150)
Foreign currency translation	(4,240)	(1,131)	(420)	(568)	(6,359)
Gross goodwill at September 30, 2016	350,249	54,184	271,493	75,998	751,924
Accumulated goodwill impairment	(122,045)				(122,045)
Accumulated amortization	(5,425)				(5,425)
Net goodwill at September 30, 2016	$ 222,779	$ 54,184	$ 271,493	$ 75,998	$ 624,454

	Disputes, Forensics & Legal Technology	Financial Services Advisory and Compliance	Healthcare	Energy	Total Company
Gross goodwill at December 31, 2014	$ 359,200	$ 55,320	$ 204,469	$ 76,572	$ 695,561
Acquisitions			59,919		59,919
Dispositions	(8)				(8)
Adjustments	(155)	(35)	(11)		(201)
Foreign currency translation	(4,433)	56	(214)	(6)	(4,597)
Gross goodwill at December 31, 2015	354,604	55,341	264,163	76,566	750,674
Accumulated goodwill impairment	(122,045)				(122,045)
Accumulated amortization	(5,425)				(5,425)
Net goodwill at December 31, 2015	$ 227,134	$ 55,341	$ 264,163	$ 76,566	$ 623,204

We performed our annual goodwill impairment test as of May 31, 2016. The key assumptions included: internal projections completed during our second quarter 2016 forecasting process; profit margin improvement generally consistent with our longer-term historical performance; assumptions regarding contingent revenue; revenue growth rates consistent with our longer-term historical performance also considering our near term investment plans and growth objectives; discount rates that were determined based on comparable discount rates for our peer group; Company-specific risk considerations; control premium; and cost of capital based on our historical experience.

Based on our assumptions, at that time, the estimated fair value exceeded the net asset carrying value for each of our reporting units as of May 31, 2016. Accordingly, there was no indication of impairment of our goodwill for any of our reporting units. As of May 31, 2016, the estimated fair value of our Disputes, Forensics & Legal Technology, Financial Services Advisory and Compliance, Healthcare, and Energy reporting units exceeded the fair value of invested capital by 17%, 61%, 22%, and 32%, 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. We will continue to monitor the factors and key assumptions used in determining the fair value of each of our 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, 2017.

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The components of intangible assets are as follows (in thousands):

	September 30, 2016	December 31, 2015
Intangible assets:		
Customer lists and relationships	$ 107,371	$ 109,745
Non-compete agreements	23,626	23,808
Other	27,811	27,302
Intangible assets, at cost	158,808	160,855
Less: accumulated amortization	(128,306)	(122,695)
Intangible assets, net	$ 30,502	$ 38,160

Our intangible assets have estimated remaining useful lives ranging up to ten years which approximate the estimated periods of consumption. We will amortize the remaining net book values of intangible assets over their remaining useful lives. At September 30, 2016, our intangible assets categories are as follows (in thousands, except year data):

Category	Weighted Average Remaining Years	Amount
Customer lists and relationships, net	5.8	$ 25,426
Non-compete agreements, net	3.8	2,678
Other intangible assets, net	2.2	2,398
Total intangible assets, net	5.3	$ 30,502

Total amortization expense was $8.7 million and $6.7 million for the nine months ended September 30, 2016 and 2015, respectively. The estimated annual aggregate amortization expense to be recorded in future periods related to intangible assets at September 30, 2016 is as follows (in thousands):

Year Ending December 31,	Amount
2016 (includes January - September)	$ 11,541
2017	8,594
2018	6,089
2019	4,269
2020	3,231
2021	3,414

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5. NET INCOME PER SHARE (EPS)

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Basic shares	47,369	47,835	47,448	48,036
Employee stock options	132	103	106	106
Restricted stock units	1,206	1,154	1,243	1,080
Contingently issuable shares	56	63	81	75
Diluted shares	48,763	49,155	48,878	49,297
Antidilutive shares (1)	92	271	181	252

(1) Stock options with exercise prices greater than the average market price of our common stock during the respective time periods were excluded from the computation of diluted shares because the impact of including the shares subject to these stock options in the diluted share calculation would have been antidilutive.

6. 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 are as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Amortization of restricted stock unit awards	$ 2,608	$ 2,424	$ 8,554	$ 7,413
Amortization of stock option awards	232	197	633	570
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	81	61	258	223
Total share-based compensation expense	$ 2,921	$ 2,682	$ 9,445	$ 8,206

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Cost of services before reimbursable expenses	$ 1,513	$ 1,512	$ 5,620	$ 4,879
General and administrative expenses	1,408	1,170	3,825	3,327
Total share-based compensation expense	$ 2,921	$ 2,682	$ 9,445	$ 8,206

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.

At September 30, 2016, we had $15.2 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 nine months ended September 30, 2016, we granted an aggregate of 1,063,756 share-based awards, consisting of restricted stock units and stock options with an aggregate fair value of $14.5 million at the time of grant. These grants include certain awards that vest based on relative achievement of pre-established performance criteria.

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7. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

Accounts Receivable, net

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

	September 30, 2016	December 31, 2015
Billed amounts	$ 186,299	$ 153,837
Engagements in process	109,525	80,102
Allowance for uncollectible billed amounts	(15,137)	(9,797)
Allowance for uncollectible engagements in process	(8,433)	(7,482)
Accounts receivable, net	$ 272,254	$ 216,660

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

Prepaid Expenses and Other Current Assets

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

	September 30, 2016	December 31, 2015
Notes receivable current	$ 2,444	$ 3,342
Prepaid recruiting and retention incentives current	10,082	9,688
Other prepaid expenses and other current assets	15,463	16,699
Prepaid expenses and other current assets	$ 27,989	$ 29,729

Other Assets

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

	September 30, 2016	December 31, 2015
Notes receivable non-current	$ 2,138	$ 4,420
Capitalized client-facing software	1,561	1,567
Prepaid recruiting and retention incentives non-current	13,217	14,009

Prepaid expenses and other non-current assets	1,744	2,535
Other assets	$ 18,660	$ 22,531

Notes receivable, current and non-current, represent unsecured employee loans. These loans were issued to recruit or retain certain senior-level client-service employees. During the nine months ended September 30, 2016, no such loans were issued, and during the nine months ended September 30, 2015, we issued loans aggregating $4.9 million. The principal amount and accrued interest on these loans is either paid by the employee or forgiven by us over the term of the loans so long as the employee remains continuously employed by us and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans is amortized as compensation expense over the service period, which is consistent with the term of the loans.

Capitalized client-facing software is used by our clients as part of client engagements. These amounts are amortized into cost of services before reimbursable expenses over their estimated remaining useful life.

Prepaid recruiting and retention incentives, current and non-current, include sign-on and retention bonuses that are generally recoverable from an employee if the employee voluntarily terminates employment or if the employee s employment is terminated for cause prior to fulfilling his or her obligations to us. These amounts are amortized as compensation expense over the period in which they are recoverable from the employee, generally in periods up to six years. During the nine months ended September 30, 2016 and 2015, we paid $11.4 million and $18.5 million, respectively, in sign-on and retention bonuses.

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Property and Equipment, net

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

	September 30, 2016	December 31, 2015
Furniture, fixtures and equipment	$ 65,049	$ 63,995
Software	82,596	77,910
Leasehold improvements	45,055	40,560
Property and equipment, at cost	192,700	182,465
Less: accumulated depreciation and amortization	(122,867)	(105,748)
Property and equipment, net	$ 69,833	$ 76,717

During the nine months ended September 30, 2016, we recorded $13.8 million in property and equipment which included $6.5 million in our technology infrastructure and software, $2.1 million in furniture and $5.0 million in leasehold improvements ($0.5 million of which was non-cash) related to the build-outs of various office spaces. During the nine months ended September 30, 2016, we retired $3.2 million in fully-depreciated assets.

Other Current Liabilities

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

	September 30, 2016	December 31, 2015
Deferred acquisition liabilities current	$ 10,560	$ 1,665
Deferred revenue	20,906	19,317
Deferred rent current	2,635	2,909
Other current liabilities	2,465	8,256
Total other current liabilities	$ 36,566	$ 32,147

Other Non-Current Liabilities

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

	September 30, 2016	December 31, 2015
Deferred acquisition liabilities non-current	$ 740	$ 8,300
Deferred rent non-current	14,083	14,358

Other non-current liabilities		5,826		6,298
Total other non-current liabilities	$	20,649	$	28,956

Deferred acquisition liabilities, current and non-current, at September 30, 2016 consisted of cash obligations related to contingent purchase price considerations recorded at fair value. During the nine months ended September 30, 2016, we recorded a fair value adjustment which increased the deferred contingent acquisition liabilities by $1.3 million and reclassified the non-current balance to current as it is expected to be settled within the 12 month period. See Note 11 Fair Value for additional information regarding deferred contingent consideration fair value adjustments.

During the nine months ended September 30, 2016, we made a payment of $5.5 million to the selling members of McKinnis for cash held in the business at closing, which reduced other current liabilities.

The current and non-current portions of deferred rent relates to tenant allowances and incentives on lease arrangements for our office facilities that expire at various dates through 2028.

At September 30, 2016, other non-current liabilities included $1.5 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 vest three years from the grant date. The value of equity granted is based on the achievement of certain performance targets during the year prior to grant.

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

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8. ACCUMULATED OTHER COMPREHENSIVE LOSS

The activity in accumulated other comprehensive loss is as follows (in thousands):

	For the three months ended September 30, 2016	For the three months ended September 30, 2015	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015
Unrealized loss on foreign exchange:				
Balance at beginning of period	$ (20,435)	$ (12,217)	$ (16,446)	$ (11,973)
Unrealized loss on foreign exchange	(1,752)	(2,723)	(5,741)	(2,967)
Balance at end of period	$ (22,187)	$ (14,940)	$ (22,187)	$ (14,940)
Unrealized loss on derivatives:				
Balance at beginning of period	$ (229)	$ (220)	$ (114)	$ (111)
Unrealized gain (loss) on derivatives in period, net of reclassification	69	(186)	(138)	(450)
Reclassified to interest expense	69	135	222	394
Income tax expense	(28)	(54)	(89)	(158)
Balance at end of period	$ (119)	$ (325)	$ (119)	$ (325)

	2016	2015
Accumulated other comprehensive loss at September 30,	$ (22,306)	$ (15,265)

9. DERIVATIVES AND HEDGING ACTIVITY

During the nine months ended September 30, 2016, the interest rate derivatives outstanding are as follows (summarized based on month of execution):

Month executed	Number of Contracts	Beginning Date	Maturity Date	Rate	Total Notional Amount (millions)
July 2014	5	July 11, 2014	July 11, 2017	1.10%	$30.0
March 2015	1	May 29, 2015	May 31, 2018	1.47%	$10.0
June 2015	1	June 30, 2015	June 30, 2018	1.40%	$ 5.0

We expect the interest rate derivatives to be highly effective against changes in cash flows related to changes in interest rates and have recorded the derivatives as a cash flow hedge. As a result, gains or losses related to fluctuations in the fair value of the interest rate derivatives are recorded as a component of accumulated other comprehensive loss and reclassified into interest expense as the variable interest expense on our bank debt is recorded. There was no ineffectiveness related to the interest rate derivatives during the nine months ended September 30, 2016. During the nine months ended September 30, 2016 and 2015, we recorded $0.2 million and $0.4 million, respectively, in interest expense associated with differentials received or paid under the interest rate derivatives.

At September 30, 2016, we had $0.2 million of net liability related to the interest rate derivatives.

10. BANK DEBT

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

At September 30, 2016, we had aggregate borrowings outstanding of $161.2 million, compared to $173.7 million at December 31, 2015. Based on our financial covenants at September 30, 2016, approximately $234.2 million in additional borrowings were available to us under the credit facility. At September 30, 2016, we had $4.1 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.

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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 September 30, 2016, the applicable margins on LIBOR and base rate loans were 1.00% and 0.00%, respectively. Depending upon our performance and financial condition, our LIBOR loans will have applicable margins varying between 1.00% and 2.00%, and our base rate loans have applicable margins varying between zero and 1.00%. Our average borrowing rate (including the impact of our interest rate derivatives; see Note 9 Derivatives and Hedging Activity) was 2.4% and 2.3% for the three months ended September 30, 2016 and 2015, respectively, and 2.3% and 2.2% for the nine months ended September 30, 2016 and 2015, respectively.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.25:1 (except for the first quarter of each calendar year when the covenant requires us to maintain a consolidated leverage ratio of not greater than 3.5:1) and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBITDA (as defined in the credit agreement) and rental expense to the sum of cash interest expense and rental expense) of not less than 2.0:1. At September 30, 2016, under the definitions in the credit agreement, our consolidated leverage ratio was 1.1 and our consolidated interest coverage ratio was 5.3. In addition, the credit agreement contains customary affirmative and negative covenants (subject to customary exceptions), including covenants that limit our ability to incur liens or other encumbrances, make investments, incur indebtedness, enter into mergers, consolidations and asset sales, change the nature of our business and engage in transactions with affiliates, as well as customary provisions with respect to events of default. We were in compliance with the covenants contained in our credit agreement at September 30, 2016; however, there can be no assurances that we will remain in compliance in the future.

11. 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.

We utilize a third-party to value our interest rate derivatives. The interest rate derivatives are used to hedge the risk of variability from interest payments on our borrowings (see Note 9 Derivatives and Hedging Activity). A majority of the inputs used in determining the fair value of the derivatives is derived mainly from Level 2 observations which include counterparty quotations in over the counter markets. However, the credit valuation adjustments associated with the derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by ourselves and our counterparties. We determined that these adjustments are not significant to the overall valuation of our derivatives. As a result, our interest rate derivatives are classified in Level 2 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 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. During the nine months ended September 30, 2016, we recorded $1.3 million in other operating costs for a net increase in the liability and during the nine months ended September 30, 2015, we recorded $12.6 million in other operating benefit for a net reduction in the liability reflecting changes in the fair value estimate of the deferred contingent acquisition liability for certain acquisitions made in 2015, 2014 and 2013 (see Note 3 to the consolidated financial statements in our 2015 Form 10-K). Also during the nine months ended September 30, 2015, the contingent acquisition liability related to the Cymetrix acquisition was reclassified as a definitive acquisition liability. The changes in deferred contingent acquisition liabilities are as follows (in thousands):

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	For the nine months ended September 30, 2016	2015
Beginning Balance	$ 8,782	$ 23,272
Acquisitions	1,500	3,765
Accretion of acquisition-related contingent consideration	516	1,075
Remeasurement of acquisition-related contingent consideration	1,330	(12,625)
Payments	(828)	(592)
Reclassification to definitive consideration liability		(10,000)
Ending Balance	$ 11,300	$ 4,895

At September 30, 2016, the carrying value of our bank debt approximated fair value as it bears interest at variable rates, and we believe our credit risk is consistent with when the debt originated. We consider the recorded value of our other financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable and accounts payable, to approximate the fair value of the respective assets and liabilities at September 30, 2016 based upon the short-term nature of the assets and liabilities.

Our financial assets and liabilities measured at fair value on a recurring basis at September 30, 2016 and December 31, 2015 are as follows (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
At September 30, 2016				
Interest rate derivatives, net	$	$ 199	$	$ 199
Deferred contingent acquisition liabilities	$	$	$ 11,300	$ 11,300
At December 31, 2015				
Interest rate derivatives, net	$	$ 189	$	$ 189
Deferred contingent acquisition liabilities	$	$	$ 8,782	$ 8,782

12. OTHER OPERATING COSTS (BENEFIT)

Contingent Acquisition Liability Adjustment, Net

During the nine months ended September 30, 2016 and 2015, we recorded a cost of $1.3 million and a benefit of $12.6 million, respectively, relating to fair value adjustments to our estimated deferred contingent acquisition liabilities. The adjustment made in 2015 relates primarily to our Cymetrix acquisition.

Deferred contingent acquisition liabilities are initially estimated based on expected performance at the acquisition date and subsequently reviewed each quarter (see Note 11 Fair Value).

Office Consolidation, Net

During the nine months ended September 30, 2016, we recorded a cost of $0.2 million primarily related to the consolidation of office space acquired in Denver, Colorado related to the McKinnis acquisition.

During the nine months ended September 30, 2015, we recorded a cost of $2.7 million related to our consolidated office space located in New York City which we took possession of on October 22, 2014. The cost included duplicate rent expense as we occupied our old New York City offices until the completion of the build-out of the new space in April 2015.

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We have included $2.7 million in current and non-current liabilities for office consolidation activity. The activity for the nine months ended September 30, 2016 was as follows (in thousands):

	Office Space Reductions
Balance at December 31, 2015	$ 3,083
Cost to operations during the nine months ended September 30, 2016	141
Deferred rent liability	125
Utilized during the nine months ended September 30, 2016	(637)
Balance at September 30, 2016	$ 2,712

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.

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 majority of our revenues are generated on a time and materials basis, though we also have engagements where fees are a fixed amount (either in total or for a period of time). We may also earn incremental revenues, in addition to hourly or fixed fees, which are contingent on the attainment of certain contractual milestones or outcomes. Variations in our quarterly or yearly revenues and resulting operating profit margins may occur depending on the timing of such contractual outcomes and our ability to consider these revenues earned and realized. Revenue is also earned on a per unit or subscription basis, generally for our technology-based service offerings.

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

Our most significant overhead expenses included in general and administrative expense are administrative compensation and benefits 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 and marketing, technology, finance, human capital management and legal expenses. Other non-billable employees who support the 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 (as defined below) is client-service employees adjusted for part-time status and takes into account hiring and attrition which occurred during the reporting period. Our average utilization rate as defined below provides a benchmark for how well we are managing our Consulting FTE (as defined below) levels in response to changing demand.

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.

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

Technology

As our business has matured, we have also continued to invest in technology infrastructure to support our evolving service offerings, including investment in more sophisticated technology infrastructure to enable our technology-based services as they expand and change over time and to deliver scalable technology solutions to meet the demands of our clients.

Additional information about our operations is included in Part I, Item 1, Business of our 2015 Form 10-K.

Acquisitions

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

Key Operating Metrics

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

- ***Average FTE*** is our average headcount during the reporting period adjusted for part-time status. Average FTE is further split between the following categories:
  - ***Client-Service FTE*** combination of Consulting FTE and Technology, Data & Process FTE defined as follows:
    - ***Consulting FTE*** individuals assigned to client services who record time to client engagements; and
    - ***Technology, Data & Process FTE*** individuals in businesses primarily dedicated to maintaining and delivering the services described above and are not included in average bill rate and average utilization metrics described below.

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

Period-end FTE represents our headcount at the last day of the reporting period adjusted for part-time status. Consulting, Technology, Data & Process and Non-billable criteria 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. Fee revenues and hours billed on performance-based services and related to Technology, Data & Process 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 Technology, Data & Process FTE are excluded from average utilization rate.

Billable hours are the number of hours our Consulting FTE recorded time to client engagements during the reporting period. Recorded hours related to Technology, Data & Process 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 employees. Long-term compensation expense attributable to Client-Service employees 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.

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Results of Operations

Results for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015

Overview. During the three months ended September 30, 2016 and 2015, we reported $17.2 million and $14.2 million in net income, respectively, an increase of 21.2%. Key highlights of our results include:

Revenues before reimbursements (RBR) increased 13.1% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Over three-quarters of the RBR increase was attributable to organic growth mainly within our Healthcare and Financial Services Advisory and Compliance segments. See segment results below for further discussion on RBR. Cost of services increased at a slightly lower rate than RBR and general and administrative expenses increased at a slightly higher rate than RBR. Depreciation and amortization expenses also increased as discussed below. Our effective income tax rate for the three months ended September 30, 2016 and 2015 was 37.8% and 36.5%, respectively.

During the nine months ended September 30, 2016 and 2015, we reported $44.6 million and $47.1 million in net income, respectively, a decrease of 5.4%. Key highlights of our results include:

RBR increased 12.4% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Nearly three-quarters of the RBR increase was attributable to organic growth within our Healthcare, Financial Services Advisory and Compliance and Energy segments. See segment results below for further discussion on RBR. Cost of services increased at a slightly lower rate than RBR, and general and administrative expenses increased at a slightly higher rate than RBR. In addition, for the nine months ended September 30, 2016, other operating costs were $1.5 million compared to an other operating benefit for the nine months ended September 30, 2015 of $9.5 million as a result of contingent acquisition liability adjustments (see Note 12 Other Operating Costs (Benefit) to our unaudited consolidated financial statements for further information on such amounts). Our effective income tax rate for the nine months ended September 30, 2016 and 2015 was 37.3% and 29.9%, respectively.

	For the three months ended September 30,		2016 over 2015 Increase (Decrease)	For the nine months ended September 30,		2016 over 2015 Increase (Decrease)
	2016	2015	Percentage	2016	2015	Percentage
Key operating metrics:						
Average FTE						
-Consulting	1,746	1,562	11.8	1,721	1,561	10.2
-Technology, Data & Process	2,620	2,809	(6.7)	2,735	2,449	11.7
-Non-billable	839	720	16.5	824	689	19.6
Period end FTE						
-Consulting	1,791	1,588	12.8	1,791	1,588	12.8
-Technology, Data & Process	2,620	2,843	(7.8)	2,620	2,843	(7.8)
-Non-billable	848	735	15.4	848	735	15.4
Average bill rate	$ 293	$ 289	1.4	$ 294	$ 289	1.7

Utilization	74%	74%	76%	75%	1.3

Key Operating Metrics. Utilization levels were 74% for each of the three months ended September 30, 2016 and 2015, and average bill rate increased 1.4% to $293 over the same periods. Average FTE Consulting increased 11.8% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to the acquisition of McKinnis within our Healthcare segment on December 31, 2015 as well as additional hiring within our Healthcare and Financial Services Advisory and Compliance segments. Average FTE Technology, Data & Process decreased 6.7% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 as a result of re-aligning our resources with demand for these types of services.

Utilization levels were 76% and 75% for the nine months ended September 30, 2016 and 2015, respectively, and average bill rate increased 1.7% to $294 over the same periods. Average FTE Consulting increased 10.2% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 due to the acquisition of McKinnis on December 31, 2015 within our Healthcare segment as well as additional hiring within our Healthcare, Financial Services Advisory and Compliance and Energy segments. Average FTE Technology, Data & Process increased 11.7% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to the acquisition of RevenueMed in February 2015, which added 1,500 Client-Service FTE (Average FTE reflects partial period of ownership) partially offset by the decreases discussed above. Period-end FTE Technology, Data & Process as of September 30, 2016 and 2015 reflected the full impact of 1,500 Client-Service FTE acquired from RevenueMed which was more than offset by recent actions taken to re-align resources with demand for these types of services.

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Cost of Services before Reimbursable Expenses. Cost of services before reimbursable expenses increased 10.1% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase was primarily due to higher compensation and benefits expenses mainly relating to the acquisition of McKinnis and other hiring of Client-Service FTE within our Healthcare, Financial Services Compliance and Advisory, and Energy segments. Incentive compensation also increased due to improved operating performance. Severance expense relating to Client-Service FTE increased for the three months ended September 30, 2016 compared to the corresponding period in 2015 at $0.8 million and $0.1 million, respectively.

Cost of services before reimbursable expenses increased 9.9% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase was primarily due to higher compensation and benefits expense mainly relating to the acquisitions of RevenueMed and McKinnis and hiring of Client-Service FTE within our Healthcare, Financial Services Advisory and Compliance, and Energy segments, partially offset by FTE decreases within our Disputes, Forensics & Legal Technology segment. In addition, training, meeting expenses, and recruiting and retention costs were higher for the nine months ended September 30, 2016 compared to the corresponding period in 2015. Incentive compensation also increased due to improved operating performance. Severance expense relating to Client-Service FTE decreased for the nine months ended September 30, 2016 compared to the corresponding period in 2015 at $2.6 million and $4.8 million, respectively.

General and Administrative Expenses. General and administrative expenses increased 15.0% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase was mainly due to acquisitions and additional hires to support growth of the business resulting in higher compensation and benefits expense. Incentive compensation also increased during the three months ended September 30, 2016 due to improved operating performance. In addition, bad debt expense increased to $2.5 million for the three months ended September 30, 2016 compared to $0.1 million for the three months ended September 30, 2015 as a result of higher days sales outstanding in accounts receivable balances in the current period.

Average Non-billable FTE related to general and administrative expenses for the three months ended September 30, 2016 and 2015 was 760 and 656, respectively as we hire additional FTE to support company growth.

General and administrative expenses were 17.8% and 17.5% of RBR for the three months ended September 30, 2016 and 2015, respectively. The increase was mainly due to higher bad debt expense relative to RBR, partially offset by improved operating leverage.

General and administrative expenses increased 13.6% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. In addition to the increases discussed above, training and meeting expenses were also higher for the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, due in part to a firm-wide leadership meeting held during the second quarter 2016, while no such meeting was held in the corresponding period of 2015. In addition, bad debt expense increased to $7.0 million for the nine months ended September 30, 2016 compared to $1.7 million for the nine months ended September 30, 2015 due to the reasons mentioned above. These increases were partially offset by lower facilities expense, data-hosting and legal expense.

Average Non-billable FTE related to general and administrative expenses for the nine months ended September 30, 2016 and 2015 was 746 and 625, respectively. The increase was primarily due to reasons discussed above.

General and administrative expenses were 18.1% and 17.9% of RBR for the nine months ended September 30, 2016 and 2015, respectively. The increase was primarily due to reasons discussed above.

Depreciation Expense. The increase in depreciation expense of 17.7% and 20.6% for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015, respectively, was primarily due to increased technology infrastructure spending, software, and leasehold improvements.

Amortization Expense. Amortization expense increased 39.4% and 31.1% for the three and nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015. The increase was primarily due to the allocation of purchase price to intangible assets of recent acquisitions, partially offset by reduced amortization relating to certain intangible assets as their useful lives came to term.

Other Operating Costs (Benefit):

Contingent Acquisition Liability Adjustments, Net. During the three and nine months ended September 30, 2016 we recorded costs of $0.5 million and $1.3 million, respectively, relating to fair value adjustments to our estimated deferred contingent acquisition liabilities. During the nine months ended September 30, 2015 we recorded a benefit of $12.6 million (see Note 12   Other Operating Costs (Benefit) to our unaudited consolidated financial statements for further information).

Office Consolidation, Net. During the nine months ended September 30, 2016, we recorded a cost of $0.2 million primarily related to the consolidation of office space in Denver, Colorado which had been assumed in connection with the McKinnis acquisition.

During the nine months ended September 30, 2015, we recorded a cost of $2.7 million, related to our new consolidated office space located in New York City which we took possession of on October 22, 2014. The cost included duplicate rent expense as we occupied our old New York City offices until completion of the build-out of the new space in April 2015.

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Interest Expense. Interest expense increased 28.7% or $0.3 million for the three months ended September 30, 2016, compared to the three months ended September 30, 2015, mainly due to a higher average debt balance and higher imputed interest related to deferred contingent consideration payable for the McKinnis acquisition. For the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 interest expense was relatively flat due to lower imputed interest related to the deferred contingent consideration payable to the Cymetrix selling stockholders which was offset by a higher average debt balance in 2016 due to the McKinnis acquisition. Average borrowing rates were 2.4% and 2.3% for the three months ended September 30, 2016 and 2015, respectively, and 2.3% and 2.2% for the nine months ended September 30, 2016 and 2015, respectively.

Income Tax Expense. Our effective income tax rate fluctuates based on the mix of income earned in various tax jurisdictions, including United States (U.S.) state and foreign jurisdictions which have different income tax rates, as well as various book-to-tax permanent differences. The rate is also impacted by discrete items which may not be consistent from year to year.

The effective income tax rate for the three months ended September 30, 2016 and 2015 was 37.8% and 36.5%, respectively. The increase in the effective income tax rate for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 was primarily attributable to favorable legislative changes associated with the sourcing of income in Washington, D.C. The Washington, D.C. legislative changes reduced deferred income tax expense by approximately $0.5 million during the three months ended September 30, 2015.

The effective income tax rate for the nine months ended September 30, 2016 and 2015 was 37.3% and 29.9%, respectively. The increase in the effective income tax rate for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 primarily relates to discrete items recorded in the prior-year period including the nontaxable nature of a portion of a deferred contingent acquisition liability fair value adjustment that reduced income tax expense by approximately $5.3 million, favorable state-enacted legislative changes and favorable income tax settlements recorded in the prior-year period.

Segment Results

Based on their size and importance, our operating segments are the same as our reporting segments. During the first quarter of 2016, we renamed two of our business segments. The Disputes, Investigations & Economics segment was renamed Disputes, Forensics & Legal Technology, and the Financial, Risk & Compliance segment was renamed Financial Services Advisory and Compliance. Other than the changes to the names of these segments, the characteristics of our business segments remain unchanged. Our performance is assessed and resources are allocated based on the following four reporting segments:

Disputes, Forensics & Legal Technology

Financial Services Advisory and Compliance

Healthcare

Energy

The following information includes segment RBR, segment total revenues and segment operating profit all on a continuing 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 3 Segment Information 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 7 Supplemental Consolidated Balance Sheet Information 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.

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Disputes, Forensics & Legal Technology

	For the three months ended September 30, 2016	2015	2016 over 2015 Increase (Decrease) Percentage	For the nine months ended September 30, 2016	2015	2016 over 2015 Increase (Decrease) Percentage
Revenues before reimbursements (in 000s)	$ 77,368	$ 80,099	(3.4)	$ 237,950	$ 237,808	0.1
Total revenues (in 000s)	$ 82,909	$ 86,826	(4.5)	$ 254,990	$ 255,552	(0.2)
Segment operating profit (in 000s)	$ 26,099	$ 28,445	(8.2)	$ 83,772	$ 78,435	6.8
Key segment operating metrics:						
Segment operating profit margin	33.7%	35.5%	(5.1)	35.2%	33.0%	6.7
Average FTE Consulting	486	481	1.0	485	488	(0.6)
Average FTE Technology, Data & Process	189	210	(10.0)	191	211	(9.5)
Average utilization rates based on 1,850 hours	72%	76%	(5.3)	75%	75%	
Average bill rate	$ 367	$ 373	(1.6)	$ 375	$ 373	0.5

The Disputes, Forensics & Legal Technology (formerly Disputes, Investigations & Economics) segment s professional services include accounting, regulatory, construction and computer forensic expertise, as well as valuation and economic analysis. In addition to these capabilities, our professionals use technological tools to perform eDiscovery services and to deliver custom technology and data analytic solutions. The clients of this segment principally include companies along with their in-house counsel and law firms, as well as accounting firms, corporate boards and government agencies.

Three months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment decreased 3.4% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The decrease was attributable to unfavorable foreign currency fluctuations as well as a lower volume of engagements in financial services disputes and international arbitration, both of which experienced particularly high demand in the prior-year period. This decline was partially offset by strong demand for our global expertise in large infrastructure claims and construction dispute matters.

Average FTE Consulting was relatively flat for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Average FTE Technology, Data & Process decreased 10.0% over the same periods as we took action, in the prior-year period, to better align resources to the market. Average bill rate decreased slightly to $367 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 mainly due to changes in project mix. Utilization decreased 5.3% for the same periods.

For the three months ended September 30, 2016 compared to the three months ended September 30, 2015 segment operating profit and segment operating profit margin decreased $2.3 million and 1.8 percentage points, respectively, reflecting lower RBR.

Nine months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was relatively flat. RBR increased due to strong demand for our global expertise in large infrastructure claims and construction dispute matters and an increase in performance-based fees associated with mass tort claims work offset by a decline in demand and increased competition for legal technology solutions.

Average FTE Consulting was relatively flat for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 as personnel reductions taken during the year ended December 31, 2015 were offset by new hires within key strategic growth areas. Average FTE Technology, Data & Process decreased 9.5% over the same periods as discussed above. Average bill rate was relatively flat at $375 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Utilization was also flat at 75% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

For the nine months ended September 30, 2016 segment operating profit increased $5.3 million compared to the nine months ended September 30, 2015 mainly due to lower compensation and benefits expense as a result of cost management actions taken in prior periods. Severance expense for the nine months ended September 30, 2016 and 2015 was $0.6 million and $3.5 million, respectively. Segment operating profit margin increased 2.2 percentage points mainly due to reasons discussed above. In addition, as mentioned above, performance-based fees were realized during the nine months ended September 30, 2016 for which certain cost of services was incurred in prior periods.

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Financial Services Advisory and Compliance

	For the three months ended September 30, 2016	2015	2016 over 2015 Increase (Decrease) Percentage	For the nine months ended September 30, 2016	2015	2016 over 2015 Increase (Decrease) Percentage
Revenues before reimbursements (in 000s)	$ 40,265	$ 28,302	42.3	$ 113,909	$ 92,754	22.8
Total revenues (in 000s)	$ 46,391	$ 31,069	49.3	$ 128,658	$ 107,808	19.3
Segment operating profit (in 000s)	$ 17,682	$ 10,383	70.3	$ 48,699	$ 36,654	32.9
Key segment operating metrics:						
Segment operating profit margin	43.9%	36.7%	19.6	42.8%	39.5%	8.4
Average FTE Consulting	314	290	8.3	303	296	2.4
Average utilization rates based on 1,850 hours	76%	69%	10.1	79%	76%	3.9
Average bill rate	$ 313	$ 284	10.2	$ 306	$ 278	10.1

The Financial Services Advisory and Compliance (formerly Financial, Risk & Compliance) segment provides strategic, operational, valuation, 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, valuation and restructuring consulting, litigation support and tax compliance services to clients in a broad variety of industries.

Three months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment increased 42.3% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase in RBR was primarily due to increased demand for financial crimes consulting expertise and increased demand for compliance and controls engagements from major financial institutions as compared to the prior-year period which had experienced relatively lower utilization due to the wind-down of certain large engagements.

Average FTE Consulting increased 8.3% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 to meet demand needs. Average bill rate increased 10.2% to $313 for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 mainly due to a change in project mix. Utilization increased 10.1% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015, mainly due to the higher volume of work discussed above.

Segment operating profit and segment operating profit margin increased $7.3 million and 7.2 percentage points, respectively, for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase was mainly due to higher RBR, driven by higher demand, higher bill rates and utilization, and use of flexible resources partially offset by higher compensation and benefits expenses due to higher Client-Service FTE, annual wage increases and higher performance-based incentive compensation expense.

Nine months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment increased 22.8% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase was primarily due to reasons discussed above.

Average FTE Consulting increased 2.4% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Average bill rate increased 10.1% to $306 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to a change in project mix. Utilization increased 3.9% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, mainly due to the higher volume of work discussed above.

Segment operating profit and segment operating profit margin increased $12.0 million and 3.3 percentage points, respectively, for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increases were due to reasons discussed above.

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Healthcare

	For the three months ended September 30,		2016 over 2015 Increase (Decrease)	For the nine months ended September 30,		2016 over 2015 Increase (Decrease)
	2016	2015	Percentage	2016	2015	Percentage
Revenues before reimbursements (in 000s)	$ 91,046	$ 74,500	22.2	$ 262,589	$ 212,739	23.4
Total revenues (in 000s)	$ 100,033	$ 80,821	23.8	$ 288,521	$ 230,802	25.0
Segment operating profit (in 000s)	$ 31,896	$ 24,091	32.4	$ 85,026	$ 67,073	26.8
Key segment operating metrics:						
Segment operating profit margin	35.0%	32.3%	8.4	32.4%	31.5%	2.9
Average FTE Consulting	601	443	35.7	576	440	30.9
Average FTE Technology, Data & Process	2,367	2,536	(6.7)	2,481	2,173	14.2
Average utilization rates based on 1,850 hours	75%	77%	(2.6)	76%	76%	
Average bill rate	$ 270	$ 269	0.4	$ 270	$ 274	(1.5)

The Healthcare segment provides consulting services and business process management services. Clients of this segment include healthcare providers, payers 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, and the implementation of a new electronic health records system.

Three months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment increased 22.2% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. RBR for the three months ended September 30, 2016 reflected the benefits of the December 2015 acquisition of McKinnis. Over half of the RBR increase was organic growth, driven by strong demand for large strategy-led transformation projects and revenue cycle consulting engagements.

Average FTE Consulting increased 35.7% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 mainly due to the 70 professionals added from McKinnis and additional hiring to meet the higher demand. Average FTE Technology, Data & Process decreased 6.7% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 due to the realignment of resources with client demand. Utilization decreased 2.6% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. Average bill rate was relatively flat.

For the three months ended September 30, 2016 compared to the three months ended September 30, 2015, segment operating profit and segment operating profit margin increased $7.8 million and 2.7 percentage points, respectively. These increases were attributable to the impact of higher RBR partially offset by higher compensation, and benefits expenses as well as retention and training costs mainly related to acquired FTE and the increase in Client-Service FTE.

Nine months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment increased 23.4% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. RBR for the nine months ended September 30, 2016 reflected the full nine month benefit of the February 2015 acquisition of RevenueMed and the December 2015 acquisition of McKinnis. Over half of the RBR increase was organic growth as discussed above.

Average FTE Consulting increased 30.9% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to the 70 professionals added from McKinnis and additional hiring to meet the higher demand. Average FTE Technology, Data & Process for the nine months ended September 30, 2015 reflected partial period employment of approximately 1,500 professionals acquired in February 2015 with the RevenueMed acquisition as well as additional hiring. Utilization was flat for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Average bill rate decreased slightly to $270 for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to a change in project mix.

For the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, segment operating profit increased $18.0 million while segment operating profit margin was relatively flat. Segment operating profit increased primarily due to reasons discussed above.

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Energy

	For the three months ended September 30, 2016	2015	2016 over 2015 Increase (Decrease) Percentage	For the nine months ended September 30, 2016	2015	2016 over 2015 Increase (Decrease) Percentage
Revenues before reimbursements (in 000s)	$ 28,436	$ 26,733	6.4	$ 84,627	$ 78,512	7.8
Total revenues (in 000s)	$ 32,076	$ 31,542	1.7	$ 96,210	$ 92,706	3.8
Segment operating profit (in 000s)	$ 8,336	$ 7,698	8.3	$ 23,452	$ 23,133	1.4
Key segment operating metrics:						
Segment operating profit margin	29.3%	28.8%	1.7	27.7%	29.5%	(6.1)
Average FTE Consulting	344	349	(1.4)	357	337	5.9
Average FTE Technology, Data & Process	63	64	(1.6)	62	65	(4.6)
Average utilization rates based on 1,850 hours	72%	73%	(1.4)	73%	75%	(2.7)
Average bill rate	$ 207	$ 200	3.5	$ 207	$ 200	3.5

The Energy segment provides management advisory services to utility, government and commercial clients. We focus on creating value for our clients by assisting in their implementation of strategy and new business models and creating sustainable excellence in areas such as investment management, integrated resource planning, renewables, distributed energy resources, energy efficiency and demand response, and transmission and distribution operations. In addition, we provide a broad array of benchmarking and research services.

Three months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment increased 6.4% for the three months ended September 30, 2016 compared to the three months ended September 30, 2015. The increase reflects improvement across the segment s portfolio of solutions in addition to ongoing penetration of key client accounts.

Utilization and Client-Service FTE were relatively stable for the three months ended September 30, 2016 compared to the three months ended September 30, 2015 while average bill rate increased 3.5% to $207 due to bill rate increases and changes in project mix.

For the three months ended September 30, 2016 compared to the three months ended September 30, 2015, segment operating profit and segment operating profit margin increased $0.6 million and 0.5 percentage points, respectively, as higher RBR was partially offset by higher compensation and benefits expense associated with recent senior hires. The margin increase reflects realization of growth in RBR associated with the senior hires mentioned above.

Nine months ended September 30, 2016 compared to corresponding period in 2015

RBR for this segment increased 7.8% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The increase was primarily due to reasons discussed above.

Utilization decreased 2.7% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 reflecting the onboarding of senior hires ahead of expected sales pipeline conversion. Average bill rate increased 3.5% to $207 due to bill rate increases and changes in project mix. Average FTE Consulting increased 5.9% related to the investment in senior hires as discussed above. Average FTE Technology, Data & Process decreased 4.6% for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 mainly due to resource realignment.

For the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, segment operating profit increased $0.3 million, due to higher RBR and lower incentive compensation expense partially offset by higher compensation and benefits expense associated with recent senior hires. Segment operating profit margin decreased 1.8 percentage points as costs of recent senior hires out-paced associated RBR growth for the period.

Liquidity and Capital Resources

Our cash flow activities for the nine months ended September 30, 2016 and 2015 were as follows (in thousands):

	2016	**2015**
Net cash provided by operating activities	$ 55,631	$ 34,103
Net cash used in investing activities	$ (28,583)	$ (55,346)
Net cash (used in) provided by financing activities	$ (28,742)	$ 22,771

Generally, our net cash provided by operating activities is funded by our day to day operating activities, augmented by borrowings under our credit facility. First quarter operating cash requirements are generally higher due to payment of our annual incentive bonuses while subsequent quarters 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.

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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 87 days at September 30, 2016, compared to 81 days at September 30, 2015 reflecting slower collections in certain markets.

Operating Activities

Net cash provided by operating activities was $55.6 million and $34.1 million for the nine months ended September 30, 2016 and 2015, respectively. The increase in cash provided by operating activities for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to higher net income after non-cash adjustments as well as lower income taxes paid partially offset by higher accounts receivable balances in the nine months ended September 30, 2016.

Investing Activities

Net cash used in investing activities was $28.6 million and $55.3 million for the nine months ended September 30, 2016 and 2015, respectively. Cash used in investing activities was lower in the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 which included higher payments in the prior-year period for acquisitions, capital expenditures related to the consolidation of our offices located in New York City and technology infrastructure spending primarily associated with our Technology, Data & Process businesses. The nine months ended September 30, 2016 included a working capital adjustment payment made to the selling members of McKinnis of $5.5 million.

Financing Activities

Net cash used in financing activities was $28.7 million for the nine months ended September 30, 2016, and net cash provided by financing activities was $22.8 million for the nine months ended September 30, 2015. The higher level of cash used in financing activities for the nine months ended September 30, 2016 was primarily related to higher repayments of bank borrowings made during 2016.

Debt, Commitments and Capital

For further information regarding our debt, see Note 10 Bank Debt to our unaudited consolidated financial statements.

At September 30, 2016, we had total contractual obligations of $325.2 million. The following table shows the components of our significant commitments at September 30, 2016 by the scheduled years of payments (in thousands):

Contractual Obligations	**Total**	**2016**	**2017 to 2018**	**2019 to 2020**	**Thereafter**
Deferred acquisition liabilities (a)	$ 11,300	$	$ 10,770	$ 530	$
Revolving credit facility (b)	161,208		161,208		
Lease commitments (c)	152,701	7,056	48,697	39,568	57,380
Total contractual obligations	$ 325,209	$ 7,056	$ 220,675	$ 40,098	$ 57,380

a) Settlement of the liabilities is contingent upon certain acquisitions meeting performance targets and were recorded at estimated fair value and discounted to present value. Assuming each of these acquisitions reaches its maximum target, our maximum deferred acquisition liabilities would have been $25.7 million at September 30, 2016.

b) Interest incurred on amounts we borrow under the credit facility varies based on relative borrowing levels, fluctuations in the variable interest rates and the spread we pay over those interest rates. As such, we are unable to quantify our future obligations relating to interest on the credit facility. See Note 10 Bank Debt to our unaudited consolidated financial statements for further information on our credit facility.

c) At September 30, 2016, we had $4.1 million of unused letters of credit under our credit facility, which have been included as a reduction in the available borrowings. The letters of credit are primarily related to the requirements of certain lease agreements for office space.

Through September 30, 2016, we have repurchased an aggregate of 8,282,465 shares of our common stock for approximately $119.9 million under our share repurchase program. At September 30, 2016, we had approximately $69.3 million remaining for share repurchases under the board authorization. See Part II, Item 2 of this report for additional information on the share repurchases.

During the first quarter of 2016, we retired 8,000,000 shares of treasury stock. As a result, within the stockholders equity accounts on our consolidated balance sheets, treasury stock was reduced by the fair value of the shares calculated using the weighted average treasury stock inventory price, common stock was reduced for the aggregate par value of the shares retired, with the difference recorded as a reduction to retained earnings.

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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 2015 Form 10-K.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This update is intended to improve the financial reporting requirements for revenue from contracts with customers by providing a principle based approach. The core principle of the standard is that revenue should be recognized when the transfer of promised goods or services is made in an amount that the entity expects to be entitled to in exchange for the transfer of goods and services. The update also requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB voted to defer the effective date of this guidance by one year. On March 17, 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations, which clarifies how an entity determines if it is a principal or an agent for each specified good or service promised to the customer, the nature of each specified good or service, and how an entity that is principal obtains control of a good and service provided by another party involved in providing goods or services to a customer. In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing, which clarifies the guidance related to whether goods or services are distinct within the context of contract and therefore a performance obligation and the timing and pattern of revenue recognition for IP licenses. In May 2016, the FASB issued ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which provides clarifying guidance in certain narrow areas and added some practical expedients. The standard and related amendments will be effective for financial statements issued by public companies for interim and annual reporting periods beginning after December 15, 2017. Early adoption of the standard is permitted, but not before the original date of financial statements issued by public companies for interim and annual reporting periods beginning after December 15, 2016. We currently do not plan to early adopt this guidance and are evaluating the potential impact of this guidance on our consolidated financial statements as well as transition methods.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. This update includes amendments that change the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. This standard will be effective for financial statements issued by public companies for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The new guidance is applied retrospectively to each prior period presented. Subsequently in August 2015, the FASB issued ASU 2015-15, which clarified the guidance in ASU 2015-03 that for a line-of-credit (revolving credit) arrangement the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term. We adopted this standard as of January 1, 2016; however, since our credit facility is a revolving credit arrangement we will continue to present our current net debt issuance cost balance in other assets. Our net debt issuance cost as of September 30, 2016 was $1.0 million.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805). This update requires the acquirer in a business combination to recognize to the income statement adjustments to provisional amounts that are identified during the measurement period in the reporting period in which adjustment amounts are determined. The adjustments are calculated as if the accounting had been completed at the acquisition date. Prior to this update, an acquirer was required to restate prior period financial statements as of the acquisition date for adjustments to provisional amounts. This standard was adopted by us on January 1, 2016, and will be applied, as needed, to acquisitions completed after this date.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). This update requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The current requirement that deferred tax liabilities and assets be offset by jurisdiction and presented as a single amount is not affected by this standard update. This standard will be effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2016. Early adoption of the standard is permitted, and the standard may be applied either retrospectively or prospectively. We adopted this standard prospectively as of October 1, 2015, and reclassified our deferred tax assets and liabilities to the net non-current deferred tax liability in our consolidated balance sheet as of December 31, 2015.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update amends the requirements for assets and liabilities recognized for all leases longer than twelve months. Lessees will be required to recognize a lease liability measured on a discounted basis, which is the lessee s obligation to make lease payments arising from the 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. This standard will be effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2018. Early adoption of the standard is permitted. The standard will be applied in a modified retrospective approach for leases existing at or entered into after the beginning of the earliest comparative period presented. We are currently evaluating the potential impact of this guidance on our consolidated financial statements.

In March 2016, The FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718). This update is intended to reduce the cost and complexity of accounting for share-based payments; however, some changes may also increase volatility in reported earnings. Under the new guidance, all excess tax benefits and deficiencies will be recorded as an income tax benefit or expense in the income statement and excess tax benefits will be recorded as an operating activity in the statement of cash flows. The new guidance also allows withholding up to the maximum individual statutory tax rate without classifying the awards as a liability. The cash paid to satisfy the statutory income tax withholding obligation is classified as a financing activity in the statement of cash flows. Lastly, the update allows forfeitures to be estimated or recognized when they occur. The requirements for the excess tax effects related to share-based payments at settlement must be applied on a prospective basis, and the other requirements under this standard are to be applied on a retrospective basis. This standard will be effective for financial statements issued by public companies for annual and interim periods beginning after December 15, 2016. We currently do not plan to early adopt this guidance and are evaluating the potential impact of this guidance on our consolidated financial statements.

In August 2016, the FASB issued 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 provides 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. This standard will be effective for financial statements issued by public companies for the annual and interim periods beginning after December 15, 2017. Early adoption of the standard is permitted. The standard will be applied in a retrospective approach for each period presented. We have completed an initial evaluation of this standard and have determined that the way we classify our contingent acquisition liability payments in the statement of cash flows will change. Based on our initial evaluation, adoption of this standard may require an immaterial reclassification of a portion of the payments previously reported as financing activities for comparative periods in the statement of cash flows within our consolidated financial statements issued on or after January 1, 2018. Under this guidance, portions of these payments will be reclassified from financing activities to operating activities. We will continue to evaluate the potential impact of this guidance on our consolidated financial statements.

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

Our primary exposure to market risk relates to changes in interest rates and foreign currencies. The interest rate risk is associated with borrowings under our credit facility and our investment portfolio, classified as cash equivalents. The foreign currency risk is associated with our operations in foreign countries.

Borrowings under our credit facility bear interest, in general, based on a variable rate equal to an applicable base rate (equal to the higher of a reference prime rate or one half of one percent above the federal funds rate) or LIBOR, in each case plus an applicable margin. We are exposed to interest rate risk relating to the fluctuations in LIBOR. We use interest rate swap agreements to manage our exposure to fluctuations in LIBOR.

At September 30, 2016, our interest rate derivatives effectively fixed our LIBOR base rate on $45.0 million of our debt. Based on borrowings under our credit facility at September 30, 2016 and after giving effect to the impact of our interest rate derivatives, our interest rate exposure was limited to $116.2 million of debt, and each quarter point change in market interest rates would have resulted in approximately a $0.3 million change in annual interest expense.

At September 30, 2016, 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 September 30, 2016, we had net assets of approximately $44.1 million with a functional currency of the United Kingdom Pound Sterling and $12.2 million with a functional currency of the Canadian Dollar related to our operations in the United Kingdom and Canada, respectively. At September 30, 2016, we had net assets denominated in non-functional currency of approximately $3.4 million. As such, a ten percent change in the value of the local currency would have resulted in a $0.3 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 (the 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.

Except as described below, there has been no change in our internal control over financial reporting during the third quarter of 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We are in the process of implementing a new Enterprise Resource Planning (ERP) system and reporting platform. The first phase of the implementation was completed during the second quarter of 2016 and included implementing new modules related to our general ledger, project costing, contracts, billing and accounts receivable systems. Additionally, during the second and third quarters of 2016, a portion of our legacy operating and financial information was migrated to the new ERP system and reporting platform, which resulted in the modification of certain controls, procedures and processes. We follow a system implementation life cycle process that requires significant pre-implementation planning, design and testing. We also conduct extensive post-implementation monitoring and testing of the effectiveness of our internal control over financial reporting, and the Company has not experienced any significant internal control deficiencies in connection with the implementation or operation of the new ERP system and reporting platform. We plan to continue to migrate our legacy operating and financial information to the new ERP system and reporting platform.

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 2015 Form 10-K.

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

The following table sets forth repurchases of our common stock during the third quarter of 2016:

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)
Jul 1 - 31, 2016	109,544	$ 16.70	109,544	$ 73,206,745
Aug 1 - 31, 2016	26,000	$ 19.67	26,000	$ 72,695,295
Sep 1 - 30, 2016	173,689	$ 19.79	173,689	$ 69,258,393
Total	309,233	$ 18.68	309,233	$ 69,258,393

(a) On October 25, 2011, our board of directors extended its previous authorization to repurchase up to $100 million of our common stock in open market or private transactions. On February 11, 2014, our board of directors increased the share repurchase authorization by approximately $50 million. On May 14, 2015, our board of directors increased the share repurchase authorization to $100 million and extended the authorization to December 31, 2017, effective July 1, 2015. As increased and extended, as of July 1, 2015, our board of directors had authorized the repurchase of shares of our common stock up to a total of $100 million during the 30 month period ending December 31, 2017 of which approximately $69 million in shares of our common stock may still be repurchased.

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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.

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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: October 25, 2016