

NAVIGANT CONSULTING INC  
Form 10-K  
February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
Commission File No. 1-12173

Navigant Consulting, Inc.

(Exact name of Registrant as specified in its charter)

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

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

(Address of principal executive offices, including zip code)

(312) 573-5600

(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES      NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES      NO

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, and (2) has been subject to such filing requirements for the past 90 days. YES      NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 February 22, 2019, 40,519,796 shares of the registrant's common stock, par value \$0.001 per share (Common Stock), were outstanding. The aggregate market value of shares of the Common Stock held by non-affiliates, based upon the closing sale price per share of the Common Stock on the New York Stock Exchange on June 30, 2018, was approximately \$980.3 million.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information from the registrant's definitive Proxy Statement for its Annual Meeting of Shareholders is incorporated by reference into Part III of this report. The registrant intends to file the Proxy Statement with the Securities and Exchange Commission within 120 days of December 31, 2018.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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## Forward-Looking Statements

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

## PART I

### Item 1. Business.

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

We are a Delaware corporation incorporated in 1996 and headquartered in Chicago, Illinois. Our executive office is located at 150 North Riverside Plaza, Suite 2100, Chicago, Illinois 60606. Our telephone number is (312) 573-5600. Our common stock is traded on the New York Stock Exchange under the symbol “NCI.”

### General Development of the Business

Our business is organized in three reporting segments — Healthcare, Energy, and Financial Services Advisory and Compliance. Within these reporting segments, we deliver consulting and advisory services and also provide technology-based solutions, data hosting and processing, and business process management services (which we refer to as Technology, Data & Process services herein) to the respective industries underlying these reporting segments. We conduct business globally in certain areas across our reporting segments and are strategically focused on offering services to clients facing transformational change and significant regulatory or legal pressures. Since our inception, we have grown through selective acquisitions of businesses (which we consider inorganic growth), recruitment of employees (which we consider organic growth) and investments in technology to complement our consulting skills and enhance our service offerings. These investments have enhanced or expanded existing expertise, added new services, broadened our geographic reach, and enhanced our market share.

On August 24, 2018, we completed the previously announced sale of our former Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within our Financial Services Advisory and Compliance segment (collectively, “SaleCo”) to Ankura Consulting Group, LLC (“Ankura”). The sale represented a strategic shift in our services and in accordance with the applicable guidance, the results from operations of SaleCo have been classified as discontinued operations for all periods presented.

Our Healthcare segment provides consulting services and business process management services. Clients of this segment include healthcare providers, payers and life sciences companies. This segment has grown through a combination of strategic acquisitions, joint ventures and recruitment of senior hires. Our recruiting efforts within this segment have been focused on building multi-functional globalized consulting teams that allow us to help our clients respond to the most significant issues impacting the healthcare industry today. Our suite of healthcare consulting services include strategy, physician enterprise, revenue cycle, operational and performance improvement, regulatory and compliance, and product planning and commercialization. In 2014 and 2015 we established our healthcare business process management services through the acquisitions of Cymetrix Corporation and RevenueMed, Inc. In 2018, to further grow our business process management services we launched a revenue-cycle business process management services joint venture, Health Systems Solutions (“HSS”), with Baptist Health South Florida. We have a 60% financial and controlling interest in HSS and as such we fully consolidate its operations. We believe that our business process management solutions and consulting expertise offers health systems and other providers with end-to-end solutions, a significant depth of industry knowledge, collaboration and integration and, with the increase in size, we provide scalability and leading capabilities.

Our Energy segment’s professionals provide full lifecycle solutions that help clients transform their businesses in a rapidly changing energy environment, manage complexity, accelerate operational performance, meet compliance

requirements and transform their organizations and systems. Clients of this segment include utility and energy companies, government and nongovernmental organizations, large corporations, product manufacturers, and investors. The segment has grown through a combination of investments in hiring, solution development and acquisitions. These investments have expanded our operations in key markets and geographies and over time have broadened our service offerings to more effectively help our clients respond to and capitalize on the global transformation occurring within the energy sector. We have also grown our benchmarking, data, and research services which now enable us to offer a broad array of market research capabilities (included within our Technology, Data & Process services). Additionally, our November 2016 acquisition of Ecofys Investments B.V. (“Ecofys”), an international consulting firm specializing in renewable energy and sustainability, now operating under the Navigant name, has provided us with a European platform to augment our capabilities in energy policy, climate strategies, energy systems and markets, urban energy, and sustainability services.



Our Financial Services Advisory and Compliance segment provides strategic, operational, risk management, investigative and compliance advisory services to clients primarily in the highly-regulated financial services industry, including major financial and insurance institutions. This segment also provides anti-corruption solutions and anti-money laundering consulting, litigation support and tax compliance services to clients in a broad variety of industries. From time to time, clients seek the services of this segment to perform large scale, compliance-oriented engagements. The strategic, operational and risk management services within this segment have largely developed over time through the recruitment of senior hires. Senior hiring remains a key strategy to drive future growth for this segment. We have also developed technology tools that enable our professionals to more efficiently identify compliance risks and streamline operational activities for our clients. In 2018, we expanded our client offerings to include managed services activities for our financial services clients.

We maintain international operations across our reporting segments. We have continued to build our international footprint to facilitate and expand our service offerings to clients outside of the United States (“U.S.”). As global demand for our services has increased, we have established international offices to provide our clients with on-the-ground resources in Europe, the Middle East, and Asia through hiring and acquisitions.

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

We have supplemented these technology investments with employee-related initiatives to promote innovation and collaboration. In addition, we have invested in development programs for our client-service professionals designed to improve sales effectiveness and collaboration across the organization as well as with our clients and business partners. We have also focused on other aspects of employee development, including talent management and mentoring programs. Collectively, these innovation, collaboration, development and sales initiatives are intended to contribute to the professional development of our employees while enhancing our ability to grow the business organically.

#### Human Capital Resources

At December 31, 2018, we had 5,952 full-time equivalent (“FTE”) employees. These FTEs were comprised of the following:

• Client-service employees (“Client-Service FTE”) (related costs for these employees are recorded as cost of services before reimbursements):

◦ 1,427 consulting employees (“Consulting FTE”) in businesses that deliver professional services. These individuals record time to client engagements.

◦ 3,630 Technology, Data & Process employees (“Technology, Data & Process FTE”) in businesses that are comprised of technology-enabled professional services, including data analytics, business process management services, technology solutions, market research and benchmarking. Of these 3,630 employees, 606 are employees of HSS. While some of these individuals may record time to client engagements (in professional services engagements), many do not record time to specific engagements. Revenue generated by FTEs working on these engagements is generally recognized on a per unit basis. 1,627 of these Technology, Data & Process FTEs were based in India.

• Non-billable employees (“Non-billable FTE”):

◦ 895 non-billable employees are assigned to administrative and support functions, including office services, corporate functions, centralized analytics and certain cross-practice support functions. The majority of costs related to these employees is recorded in general and administrative expense. Certain costs relating to a central analytics team based in India are allocated to cost of services before reimbursements. During the year ended December 31, 2017, we centralized resources previously organized as separate practice functions and leveraged our lower cost India footprint for certain activities. In 2018, 329 of these Non-billable FTEs were based in India.

We also had 212 FTE project employees who perform client services on a contractual basis. Project employee levels vary from period to period based on staffing and resource requirements. The majority of costs related to these employees is recorded in cost of services before reimbursements.

Our revenues are primarily generated from services performed by our client-service employees. As a result, our success depends in large part on attracting, retaining and motivating talented, creative and experienced client-service employees at all levels and across various geographies. We employ internal recruiters, retain executive search firms, and utilize personal and business contacts. Our client-service employees are drawn from a variety of sources, including the industries we serve, accounting and other consulting organizations, and top-rated colleges and universities. Our client-service employees include, but are not limited to, PhDs, MDs, MBAs, JDs, CPAs, CFEs (certified fraud examiners), engineers, nurses and former government officials.

We continue to develop and grow our Technology, Data, & Process services through adding employees to support the businesses using these services. We recruit, retain, and manage many of our Technology, Data & Process employees differently from our consulting employees. For example, in our business process management services, we add Technology, Data & Process employees through traditional recruitment, by transitioning client employees to become Navigant employees, and by subcontracting services from our clients. Our demand for these resources may fluctuate depending on our clients' needs and our ability to more efficiently perform our services by utilizing technology resources. By managing these employees with our processes, centralizing their functions in our business centers, and leveraging proprietary technology to enable work streams, we are able to more efficiently and effectively deliver services. We leverage our Technology, Data and Process employees in our business centers not only to help us better manage our employees across work streams and projects but also to create opportunities for these employees to develop professionally by exposing them to new service areas and possibilities for promotion within the management teams at these locations.

We seek to retain our employees by offering competitive compensation packages including base and incentive compensation (and in certain instances share-based compensation and retention incentives), attractive benefits and rewarding careers. We periodically review and adjust, if needed, our employees' total compensation (including salaries, annual cash incentive compensation, other cash and equity incentives, and benefits) to ensure that it is competitive within the industry and is consistent with our level of performance. In addition to compensation, we promote numerous charitable, philanthropic, and social awareness programs that not only support our community, but also provide experiences for our employees to promote a collaborative and rewarding work environment.

We regularly evaluate employees and their productivity against future demand expectations and historical trends. From time to time, we may reduce or add resources in certain areas in an effort to align with changing demands. We may utilize project employees and engage independent contractors on certain engagements, which allow us to quickly adjust staffing in response to changing demand for our services. During the year ended December 31, 2018, we utilized 109 independent contractors under retainer agreements to provide services to our clients.

In connection with recruiting activities and business acquisitions, our general policy is to obtain non-solicitation covenants from senior and some mid-level employees. Most of these covenants have restrictions that extend 12 months or more beyond the termination of employment. We utilize these contractual agreements and other agreements to protect our business interests, which can also reduce the risk of attrition and provide stability to our existing clients, staff and projects.

In our consulting businesses, our bill rates or fees charged to clients are tiered in accordance with the experience and position of our employees staffed on each matter. We monitor and adjust those bill rates or fees according to then-current market conditions for our service offerings and within the various industries we serve. Similarly, pricing for our Technology, Data, & Process services is based upon the complexity of services delivered and markets served.

#### Competition

The market for our services is highly competitive, highly fragmented and subject to rapid change. The market includes a large number of participants with a variety of skills and industry expertise, including general management and information technology consulting firms, strategy firms, global accounting firms, business process and technology

solution providers and other local, boutique, regional, national and international consulting firms. Many of these companies are international in scope and have larger teams of personnel and greater financial, technical and marketing resources than we do. In particular, the “Big Four” accounting firms (PricewaterhouseCoopers, Deloitte, Ernst & Young and KPMG) are highly competitive in the consulting industry. However, we believe that our industry focus, deep industry and operational expertise, reputation, global business model and broad range of service offerings enable us to compete effectively in the marketplace.

## Developing Client Relationships

We market our services directly to corporate executives and senior management, corporate counsel, law firms, corporate boards, special committees and governmental agencies. We use a variety of business development and marketing channels to communicate directly with current and prospective clients, including on-site presentations, industry seminars, thought leadership and industry-specific articles. In addition, we have strengthened our market presence by developing our brand name and go-to-market strategy. New engagements are sought and won by our senior and mid-level employees working together across our reporting segments. We seek to leverage our client relationships in one business segment to cross-sell service offerings provided by other reporting segments. Clients frequently expand the scope of engagements during delivery to include follow-on or complementary services. We have also developed client relationships through the formation of joint ventures, such as HSS discussed above. Our future performance will continue to depend upon our ability to win new engagements, attract and retain employees, develop and continue client relationships and maintain our reputation.

We believe our unique mix of deep industry expertise, combined with our scale, global presence, multi-disciplinary professionals and specialized service offerings, positions us to address our clients' critical business needs. We continue to establish programs to facilitate collaborative product development and marketing efforts, and also to develop new, innovative and repeatable solutions for our clients.

## Financial Information about our Business Segments

See Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 5 – Segment Information to the notes to our consolidated financial statements for discussion of total revenues, revenues before reimbursements, segment operating profit and total assets by business segment. Certain areas within our reporting segments operate globally. For information regarding our total revenues and total assets by geographic region see Note 5 – Segment Information to the notes to our consolidated financial statements. For information regarding risks related to our international operations see Item 1A – "Risk Factors."

## How Our Income is Derived

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

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

Our most significant overhead expenses are administrative compensation and benefits and office-related expenses. Administrative compensation includes salaries, incentive compensation, share-based compensation and benefits for corporate management and administrative personnel that indirectly support client engagements. Office-related

expenses primarily consist of rent for our offices. Other administrative costs include bad debt expense, marketing, technology, finance and human capital management.

#### Concentration of Revenues

Revenues earned from our top 20 clients remained relatively steady at 39%, 38% and 37% of our total revenues from continuing operations for 2018, 2017 and 2016, respectively. No single client accounted for more than 10% of our total revenues during 2018, 2017 or 2016. For further information on segment concentration see Item 7 - Management, Discussion and Analysis of Financial Condition and Results of Operations – Segment Results.

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## Non-U.S. Operations

We maintain international operations and have offices outside the U.S. including in countries within Europe, the Middle East and Asia. No country, other than the U.S., accounted for more than 10% of our total revenues from continuing operations during 2018, 2017 or 2016. Our non-U.S. subsidiaries, in the aggregate, represented approximately 8%, or \$62.9 million, of our total revenues from continuing operations in 2018 compared to 7%, or \$47.7 million, in 2017 and 3%, or \$23.4 million, in 2016. Revenues are allocated among our subsidiaries based on the respective entity or entities employing the personnel deployed on the engagements. For further geographic information, see Note 5 – Segment Information to the notes to our consolidated financial statements.

## Available Information

We maintain a corporate website at [www.navigant.com](http://www.navigant.com). The content of our website is not incorporated by reference into this report or any other reports we file with, or furnish to, the SEC. Investors may access our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to those reports, as well as the proxy statement for our annual meeting of shareholders, free of charge (as soon as reasonably practicable after these materials are electronically filed with, or furnished to, the SEC) by going to the Investor Relations section of our website ([investors.navigant.com](http://investors.navigant.com)) and searching under “SEC Filings.” These materials are also available in printed form free of charge upon request. Requests should be submitted to: Navigant Consulting, Inc., 150 North Riverside Plaza, Suite 2100, Chicago, Illinois 60606, Attention: Investor Relations.

## Item 1A. Risk Factors

In addition to other information contained in this report and in the documents incorporated by reference herein, the following factors should be considered carefully in evaluating us and our business. These factors could materially affect our business, financial condition, results of operations and/or stock price in future periods. Additional risks not currently known to us or that we currently deem to be immaterial also could materially affect our business, financial condition, results of operations or stock price in future periods.

### Risks Related to the Market

Our business, results of operations and financial condition could be adversely affected by disruptions in the marketplace caused by economic and political conditions.

Economic and political conditions affect our clients’ businesses and the markets they serve. A severe and/or prolonged economic downturn or a negative or uncertain political climate could adversely affect our clients’ financial condition and the levels and types of business activity engaged in by our clients and the industries we serve. Clients could determine that discretionary projects are no longer viable or that new projects are not advisable. This may reduce demand for our services, depress pricing for our services or render certain of our service offerings obsolete, any of which could have a material adverse effect on our business, results of operations and financial condition. Changes in economic and political conditions could drive changes to the regulatory or legislative landscape and consequently render certain of our service offerings obsolete or shift demand to services that we do not offer or for which we do not have competitive advantages, which could negatively affect the amount of new business that we are able to obtain. If we are unable to predict or assess the impact of changing economic and political conditions on our business or if we are unable to effectively plan for and respond to those changes, including realigning our resources and managing our costs, our business could be adversely affected. Additionally, significant economic turmoil or financial market disruptions could adversely impact the availability of financing to our clients and, in turn, could adversely impact our ability to secure new engagements or collect outstanding amounts due from our clients or cause them to terminate their existing contracts with us, each of which could adversely affect our financial position and results of operations.

Our business could be adversely impacted by competition.

The market for our services is highly competitive, highly fragmented, and subject to rapid change. The market includes a large number of participants with a variety of skills and industry expertise, including general management and information technology consulting firms, strategy firms, global accounting firms, business process and technology solution providers and other local, regional, national, and international consulting firms. Many of these firms are international in scope and have larger teams of personnel and greater financial, technical and marketing resources than we do. Some firms may have lower overhead and other operating costs and, therefore, may be able to more effectively compete through lower cost service offerings. If we are unable to compete effectively, our results of operations and financial condition could be adversely impacted.



We serve clients in industries undergoing significant change, and a significant change in the legal and regulatory landscape may reduce the demand for our services or render certain of our service offerings obsolete.

Many of our clients operate in highly regulated industries such as healthcare, energy, and financial services. These industries are subject to changing political, legislative, regulatory and other influences. The laws and regulations in these industries can be complex, and the application of those laws and regulations to our clients and to us is not always clear. Regulatory and legislative changes in these industries could reduce the demand for our services, decreasing our competitive position or potentially render certain of our service offerings obsolete, change client buying patterns or decision making or require us to make unplanned modifications to our service offerings, which could require additional time and investment. If we fail to accurately anticipate the application of the laws and regulations affecting our clients and the industries they serve, if anticipated changes in regulation or regulatory uncertainty impact client buying patterns, or if such laws and regulations decrease our competitive position or limit the applicability of our service offerings, our results of operations and financial condition could be adversely impacted.

The healthcare industry is an area of significant focus for our business, and factors that adversely affect the financial condition of the healthcare industry could adversely affect our business.

We derive a significant portion of our revenue from clients in the healthcare industry. As a result, our financial condition and results of operations could be adversely affected by conditions affecting the healthcare industry generally and hospitals and health systems particularly. The healthcare industry is highly regulated and is subject to rapidly changing political, legislative, regulatory, and other influences. Uncertainty in any of these areas could cause our clients to delay or postpone decisions to use our services. Existing and new federal and state laws and regulations affecting the healthcare industry could create unexpected liabilities for us, could cause us or our clients to incur additional costs, and could restrict our or our clients' operations. Many healthcare laws are complex and their application to us, our clients, or the specific services and relationships we have with our clients are not always clear. In addition, federal and state legislatures have periodically introduced programs to reform or amend the U.S. healthcare system at both the federal and state level, such as the Patient Protection and Affordable Care Act (the "Affordable Care Act") and the Health Care and Education Reconciliation Act of 2010. Due to the significant implementation issues arising under these laws, as well as continued efforts to repeal, amend, delay or replace these laws, including by executive order and executive enforcement decisions, it is unclear what long-term effects they will have on the healthcare industry and in turn on our business, financial condition and results of operations. Our failure to accurately anticipate the application of new laws and regulations, or our failure to comply with such laws and regulations, could expose us to liability, result in adverse publicity and negatively affect our business.

In addition, many healthcare industry participants and payers are consolidating, and we expect regulatory and economic conditions to continue this trend of consolidation in the healthcare industry. Mergers or consolidations among our clients could reduce the number of our clients and potential clients. If a current client merges or consolidates with a company that relies on another provider for the services we offer, we may lose future revenue from that client and the opportunity to provide additional services. As healthcare companies consolidate and assume greater market power, they may try to use their market power to negotiate fee reductions for our products and services. Consolidation may also result in the acquisition or future development by our clients of products and services that compete with us. Any of these potential results of consolidation could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to successfully recruit, retain and incentivize our senior-level employees, our ability to win new client engagements and compete effectively could be adversely affected.

We rely heavily on a group of senior-level employees and business development professionals. We believe our future success is dependent on our ability to successfully recruit and retain their services. Competition for skilled employees is intense, and retention of our employees, particularly senior revenue-generators, is a key factor affecting our ability

to continue to grow organically and achieve our long-term strategic initiatives. The professional services industry has low barriers to entry making it easy for employees to start their own businesses or work independently. In addition, it is relatively easy for employees in our industry to change employers. Further, our senior-level employees and business development professionals may develop strong bonds with the clients they serve. In the event that such professionals leave us, we may lose clients who decide they prefer to continue working with a particular professional.

The costs associated with recruiting, training and retaining employees are significant, and restrictive covenants prevalent in the professional services industry often prevent senior-level employees from generating revenue quickly upon hire. If we are unable to successfully recruit and retain our senior-level employees, we could lose existing clients, experience an adverse effect on our ability to win new client engagements, or experience difficulty meeting client needs in our current engagements, and our results of operations could be adversely affected.

Although we offer various incentive compensation programs, including share-based compensation designed to retain and incentivize our senior-level employees, there can be no assurance that these programs will be effective. Further, limitations on the number of shares available under our equity compensation plans or a sustained decline in our stock price, which would require us to grant more shares in order to deliver the desired level of value, could also affect our ability to offer adequate share-based compensation as incentives to our senior-level employees. If we are unable to successfully incentivize our senior-level employees, those employees could leave us, and our results of operations could be adversely affected.

#### Risks Related to Capital and Financing

We cannot be assured that we will have access to sufficient sources of capital to meet our cash needs.

We rely on our current cash and cash equivalents, cash flows from operations and borrowings under our credit agreement to fund our short-term and anticipated long-term operating and investing activities. Our credit agreement provides a \$350 million revolving credit facility. At our option, subject to the terms and conditions in the credit agreement, we may elect to increase commitments under the credit facility up to an aggregate amount of \$450 million. The credit facility becomes due and payable in full upon maturity in March 2022. At December 31, 2018, we had no outstanding borrowings outstanding under the credit facility and approximately \$346.5 million available. There can be no assurance that the credit facility will continue to be sufficient to meet the future needs of our business, particularly if a decline in our financial performance were to occur. In addition, there is no assurance that we will be able to refinance or extend this facility on similar or more favorable economic terms. If this occurs, and we are unable to otherwise increase our cash flows from operations, raise additional capital or obtain debt financing on terms favorable to us, we may be unable to meet our future cash needs, including, for example, funding our acquisitions and other strategic and capital investments. Furthermore, certain financial institutions that are lenders under our credit facility could be adversely impacted by significant economic turmoil or financial market disruptions and therefore could become unable to meet their commitments under our credit facility, which in turn would reduce the amounts available to us under that facility.

In addition, our variable rate indebtedness may use LIBOR as a benchmark for establishing the rate. As was announced in July 2017, LIBOR is anticipated to be phased out by the end of 2021. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely impact the availability and cost of borrowings.

If we are unable to collect receivables in a timely manner, our operating cash flows could be adversely affected.

For the majority of our engagements, we do not receive prepayments or retainers prior to performing services on a client's behalf. If the average time it takes our clients to pay our invoices increases, or if the financial condition of any of our clients were to deteriorate, impairing their ability to make payments due to us, our operating cash flows would be adversely impacted which may require us to fund a greater portion of our working capital needs with borrowings under our credit facility or other capital sources.

Our failure to comply with the covenants in our credit agreement could have a material adverse effect on our financial condition and liquidity.

Our credit agreement contains financial covenants requiring that we maintain, among other things, certain levels of fixed charge and debt coverage. Poor financial performance could cause us to be in default of these covenants. While we were in compliance with these covenants at December 31, 2018, there can be no assurance that we will remain in compliance in the future. Historically, our borrowings under the credit facility tend to be higher during the first half of the year to fund annual incentive payments, and as a result, our consolidated leverage ratio is expected to increase from December 2018 levels. If we fail to comply with the covenants in our credit agreement, this could result in our having to seek an amendment or waiver from our lenders to avoid the termination of their commitments and/or the

acceleration of the maturity of outstanding amounts under the credit facility. The cost of our obtaining an amendment or waiver could be significant, and further, there can be no assurance that we would be able to obtain an amendment or waiver. If our lenders were unwilling to enter into an amendment or provide a waiver, all amounts outstanding under our credit facility would become immediately due and payable.

At times, we may have variable rate indebtedness which subjects us to interest rate risk and may cause our annual debt service obligations to increase significantly.

Borrowings under our credit facility are based on short term variable rates of interest which expose us to interest rate risk. Increases in the interest rates we pay could adversely impact our interest expense, cash outflows and results of operations. From time to time, we use derivative instruments for non-trading purposes, primarily consisting of interest rate swap agreements, to manage our interest rate exposure by achieving a desired proportion of fixed rate versus variable rate borrowings. There can be no assurance, however, that our derivative instruments will be successful in reducing the risks inherent in exposure to interest rate fluctuations.

## Risks Related to Our Business Operations

Our results of operations and consequently our business may suffer if we are not able to maintain current pricing, compensation costs and productivity levels.

Our revenues and profitability are largely based on the pricing of our services, compensation costs and the number of hours our client-service employees work on client engagements. Accordingly, if we are not able to maintain adequate pricing for our services or appropriately manage our compensation costs and productivity levels, our results of operations may suffer. Pricing, compensation costs and productivity levels are affected by a number of factors, including:

- Our ability to predict future demand for our services and maintain the appropriate staffing levels;
- Our ability to transition client-service employees from completed client engagements to new client engagements;
- Our clients' perceptions of our ability to add value through our services;
- Our competitors' pricing of services and compensation levels;
- The market demand for our services and our ability to successfully balance our supply of skills and resources with client demand;
  - The market rate for employee compensation costs;
- Our ability to manage our human capital resources, particularly as we increase the size and diversity of our workforce, and expand into new service offerings as part of our growth strategies, and enter into new geographical markets;
- The economic, political and regulatory environment;
- Our ability to accurately estimate and appropriately manage professional hours and other aspects of fixed-fee engagements and discounted fees which may result in the costs of providing such services exceeding the fees collected; and
- Our failure to meet key performance improvement measures embedded within certain contracts that could trigger penalties.

If we are unable to keep our supply of skills and resources in balance with client demand, our business, the utilization rate of our professionals and our results of operations could be adversely affected.

Our profitability depends on our ability to effectively source and staff our customers' projects with employees possessing the right mix of skills and experience and our ability to transition employees to new assignments on a timely basis. If we are unable to effectively deploy our employees globally on a timely basis to fulfill the needs of our clients, our profitability could suffer. If the utilization rate of our professionals is too high, it could have an adverse effect on employee engagement and attrition, the quality of services provided and our ability to staff future projects. If our utilization rate is too low, our profitability and the engagement of our employees could suffer. The costs associated with recruiting and training employees are significant.

Some of the work we do involves greater risk than ordinary engagements which could negatively impact our business.

We do work for clients that for financial, legal, reputational or other reasons may present higher than normal risks. While we attempt to identify and mitigate our exposure with respect to higher-risk engagements and higher-risk clients, these efforts may be ineffective and an actual or alleged error or omission on our part or the part of our client or other third parties on one or more of these higher-risk engagements could have a material adverse impact on our business and financial condition. Examples of higher-risk engagements include, but are not limited to:

- Interim management engagements, including those for hospitals and other healthcare providers;
- Engagements where we assist clients in complying with healthcare-related or financial services-related regulatory requirements;
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Engagements where we serve as an independent monitor or as an independent review organization or which otherwise subject us to heightened requirements relating to our independence from our client;

• Financial advisory engagements;

• Engagements where we deliver project management services, including system integration and optimization services, for large infrastructure projects;

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- Engagements where we receive or process or host sensitive data, including personal consumer or private health information;
- Engagements where we deliver a compliance effectiveness opinion;
- Engagements involving independent consultants' reports issued pursuant to consent or similar orders to which our clients may be subject; and
- Engagements for governmental clients or where our work product will be relied upon by governmental agencies which regulate our clients.

Our international operations create special risks that could negatively impact our business.

We have offices outside the U.S., including countries in Europe, the Middle East and Asia, and conduct business in many other countries. We expect to continue to expand globally and our international revenues may account for an increasing portion of our revenues in the future. Our international operations carry special financial, business, legal and reputational risks, including:

- Cultural and language differences in conducting business;
- Employment and labor laws and related factors that could, among other things, result in lower utilization, higher compensation costs and cyclical fluctuations of utilization and revenues and affect our ability to realign resources with demand for our services;
- Currency fluctuations that could adversely affect our financial position and operating results;
- Compliance with varying legal and regulatory requirements, and other barriers to conducting business;
- Impact on consulting spend from international firms and global economies affected by the United Kingdom's withdrawal from the European Union (or "Brexit") and surrounding uncertainty, and the political, economic and commercial responses related to such events;
- Risks associated with engagements performed by employees and independent contractors with governmental officials and agencies, including the risks arising from the anti-bribery and corruption regulations;
- Greater difficulties in managing and staffing foreign operations, including in higher risk geographies;
- Greater personal security risks to employees traveling to or located in unstable locations;
- Difficulties developing talent and leadership capabilities in emerging markets, where depth of skilled employees is often limited and competition for these resources is intense, can be expensive and may be unsuccessful;
- Successful entry and execution in new markets;
- Restrictions on the repatriation of earnings; and
- Potentially adverse tax consequences, such as net operating loss carry forwards that cannot be realized or higher effective tax rates.

If we are not able to successfully mitigate the special risks associated with our international operations, our business prospects and results of operations could be negatively impacted.

The United Kingdom's withdrawal from the EU may adversely impact our operations in the United Kingdom and elsewhere.

In June 2016, United Kingdom ("UK") voters approved an advisory referendum for the UK to exit the EU. The UK parliament voted in favor of allowing the government to commence negotiations to determine the future terms of the UK's relationship with the EU, including the terms of trade between the UK and the EU and other nations. The timing of the proposed exit is currently scheduled for March 29, 2019, with a transition period running through December 2020. A withdrawal plan was presented to the UK parliament in January 2019 and rejected, creating further uncertainty in negotiations and the process of withdrawal.

Depending on the outcome of these negotiations, we could face new challenges in our operations, such as instability in global financial and foreign exchange markets. This instability could include volatility in the value of the British pound and European euro, legal uncertainty and potentially divergent national laws and regulations. In addition, the absence of trade agreements between the UK and other EU countries may adversely affect the operation of our cross-border engagements between certain of these countries. At this time, we cannot predict the impact that an actual exit from the EU will have on our business generally and our UK and European operations more specifically, and no assurance can be given that our operating results, financial condition and prospects would not be adversely impacted by the result.



If we are unable to effectively execute on long-term growth objectives, our results of operations and our stock price could be adversely affected.

Achievement of our long-term growth objectives may require additional investments in technology, people and acquisitions. These investments may be significantly different in size, nature and complexity in comparison to those we have made in the past, which could inherently create more risk around those investment decisions than would otherwise be the case. Specifically:

• Incentive compensation programs designed to motivate growth may result in innovation or investments that drive near-term growth, but that do not achieve longer-term growth and profitability objectives, or may incentivize an increase in risk compared to our current risk tolerance.

• Investments in acquisitions may result in growth in businesses that may add to near-term revenues and earnings, but may negatively impact shareholder return over the long-term if they do not perform as expected, or may otherwise create higher longer-term risks, including new legal, compliance, profitability or regulatory implications.

• The businesses and services added through these investments may extend beyond the knowledge, expertise or resources of our current management team, which could result in unintended risks.

If we are unable to successfully maintain a sales pipeline and to attract business from new or existing clients, our results of operations could be materially and adversely affected.

Many of our client engagement agreements are short term in nature (less than one year) or can be terminated by our clients with little or no notice and without penalty. Some of our services involve multiple engagements or stages. In those engagements, there is a risk that a client may choose not to retain us for the additional stages of an engagement or that a client will cancel or delay additional planned engagements. When contracts are terminated or not renewed, we lose the anticipated revenues and it may take significant time to replace the revenues lost or redeploy resources. The potential for early termination of large engagements creates uncertainty with respect to potential future revenue and earnings. Also, companies in the industries we serve may combine or be acquired by other companies. If a current client merges or consolidates with a company that relies on another provider for the services we offer, we may lose future revenue from that client and the opportunity to gain additional work. For all these reasons, we rely heavily on our senior-level employees' ability to develop new business opportunities for our services.

In the past, we have derived significant revenues from events as inherently unpredictable as the Dodd-Frank Act, healthcare reform, the credit crisis and significant natural disasters including major hurricanes and earthquakes. Those events, in addition to being unpredictable, often have impacts that decline over time as clients adjust to and compensate for the challenges they face. These factors also limit our ability to predict future revenues and human capital resource needs especially for large engagements that may end abruptly due to factors beyond our control which in turn could adversely impact our results of operations.

Unsuccessful client engagements could result in damage to our professional reputation or legal liability which could have a material adverse effect on our business.

Our professional reputation and that of our client-service employees is critical to our ability to successfully compete for new client engagements and attract and retain employees. In addition, our client engagements subject us to the risk of legal liability. Any public assertion or litigation alleging that our services were deficient or that we breached any of our obligations to a client could expose us to significant legal liabilities, distract our management and damage our reputation. Our professional liability insurance may not cover every type of claim or liability that could potentially arise from our client engagements. In addition, the limits of our insurance coverage may not be enough to cover a particular claim or a group of claims and the costs of defense. Any factors that damage our professional reputation could have a material adverse effect on our business.

We may not be able to maintain the equity in our brand name.

We believe that the Navigant brand is an important part of our overall effort to attract and retain clients and that the importance of brand recognition will increase as competition for our services increases. We may expand our marketing activities to promote and strengthen our brand and may need to increase our marketing budget, hire additional marketing and public relations personnel or expend additional amounts to protect our brand and otherwise to create and maintain client brand loyalty. In addition, our brand and corporate reputation are potentially susceptible to material damage by events such as disputes with clients, cybersecurity breaches, delivery failures, political issues involving our clients and the services we provide to those clients, compliance violations, government investigations or legal proceedings. Similarly, our reputation could be damaged by actions or statements of current or former clients, directors, employees, competitors, vendors, alliance or joint venture partners, legislators or government regulators, as well as members of the investment community or the media, including social media influencers. There is a risk that negative or inaccurate information about Navigant, even if based on rumor or misunderstanding, could adversely affect our business. If we fail to effectively promote, protect and maintain the Navigant brand, or incur excessive expenses in doing so, our business and results of operations could be adversely impacted. Damage to our reputation could be difficult, expensive and time-consuming to repair, could make potential or existing clients reluctant to select us for new engagements, resulting in a loss of business, and could adversely affect our recruitment and retention efforts. Damage to our reputation could also reduce the value of the Navigant brand name and could reduce investor confidence in us, materially adversely affecting our share price.

We encounter professional conflicts of interest.

If we are unable to accept new client engagements for any reason, including business and legal conflicts, our client-service employees may become underutilized or discontented, which may adversely affect our future results of operations, as well as our ability to retain these consultants. In addition, although we have systems and procedures to identify potential conflicts of interest prior to accepting a new client engagement, there is no guarantee that all potential conflicts of interest will be identified, and undetected conflicts may result in damage to our professional reputation and result in legal liability which may adversely impact our business.

We may be exposed to potential risks if we are unable to achieve and maintain effective internal controls.

If we fail to achieve and maintain adequate internal control over financial reporting or fail to implement necessary new or improved controls that provide reasonable assurance of the reliability of our financial reporting and the preparation of our financial statements for external purposes, we may fail to meet our public reporting requirements on a timely basis, suffer harm to our reputation, may be unable to adequately or accurately report on our business and our results of operations or may be required to restate our financial statements. Even with adequate internal controls, we may not prevent or detect all misstatements or fraud. Also, internal controls that are currently adequate may in the future become inadequate because of changes in conditions or changes in regulatory standards, and the degree of compliance with our policies or procedures may deteriorate.

Acquired businesses may not achieve expected results which could adversely affect our results of operations.

We have grown our business, in part, through the acquisition of complementary businesses. The substantial majority of the purchase price we pay for acquired businesses is related to goodwill and intangible assets. We may not be able to realize the value of those assets or otherwise realize anticipated synergies unless we are able to effectively integrate the businesses we acquire. We face multiple challenges in integrating acquired businesses and their personnel and technology systems, including differences in corporate cultures and management styles, retention of personnel, conflict issues with clients, systems integration, and the need to divert managerial resources and focus that would otherwise be dedicated to our current businesses. Additionally, certain senior-level employees, as sellers of the acquired businesses, are bound by non-competition covenants that expire after a specific amount of time from the date of acquisition. When these covenants expire, any loss of these senior-level employees could significantly impact the acquired businesses and their successful integration. Any failure to successfully integrate acquired businesses and technology systems and retain personnel could cause the acquired businesses to fail to achieve their expected results, which would in turn adversely affect our financial performance and may require a possible impairment of the acquired assets.

We may also be adversely impacted by liabilities we assume from a company we acquire. We may fail to identify or adequately assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquiring a company, including potential exposure to regulatory sanctions or liabilities resulting from an acquisition target's previous activities. Should these events occur, our expected benefit from such transactions may not be realized. Additionally, the financing of acquisitions through cash, borrowings or common stock could also impair our liquidity or cause significant dilution of our shareholders.

Goodwill and other intangible assets represent a significant portion of our assets, and an impairment of these assets could have a material adverse effect on our financial condition and results of operations.

Because we have acquired a significant number of businesses, goodwill and other intangible assets represent a significant portion of our total assets. Under generally accepted accounting principles, we are required to perform an annual impairment test at the reporting unit level on our goodwill and, on a quarterly basis, we are required to assess the recoverability of both our goodwill and long-lived intangible assets. We consider our operating segments to be our reporting units. We may need to perform an impairment test more frequently if events occur or circumstances indicate

that the carrying amount of these assets may not be recoverable. These events or circumstances could include a significant change in the business climate, attrition of key personnel, a prolonged decline in our stock price and market capitalization, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of one of our businesses, and other factors. If the fair market value of one of our reporting units or other long-lived intangible assets is less than the carrying amount of the related assets, we could be required to record an impairment charge in the future. The valuation of our reporting units requires judgment in estimating future cash flows, discount rates and other factors. In making these judgments, we evaluate the financial health of our reporting units, including such factors as market performance, changes in our client base and projected growth rates. Because these factors are ever changing, due to market and general business conditions, we cannot predict whether, and to what extent, our goodwill and long-lived intangible assets may be impaired in future periods. At December 31, 2018, we had goodwill of \$422.4 million and net intangible assets of \$14.2 million. The amount of any future impairment could be significant and could have a material adverse effect on our financial results. See Note 6 — Goodwill and Intangible Assets, Net to the notes to our consolidated financial statements.

Changes in our level of taxes, as well as adverse outcomes in audits, investigations and tax proceedings, or changes in tax laws or in their interpretation or enforcement, could have a material adverse effect on our effective income tax rate, results of operations, cash flows and financial condition.

We are subject to taxes in numerous jurisdictions. We calculate and provide for taxes in each tax jurisdiction in which we operate. Tax accounting often involves complex matters and requires our judgment to determine our provision for income taxes and other tax liabilities. We are subject to ongoing audits, investigations and tax proceedings in various jurisdictions. Tax authorities have disagreed with, and may in the future take positions opposing, the judgments we make, including with respect to our intercompany transactions. We regularly assess the likely outcomes of our audits, investigations and tax proceedings to determine the appropriateness of our tax liabilities. However, our judgments may not be sustained as a result of these audits, investigations and tax proceedings, and the amounts ultimately paid could be materially different from the amounts recorded and reflected in our consolidated financial statements.

Our effective income tax rate could be adversely affected in the future by the expiration of current tax benefits, changes in the mix of earnings in countries with differing statutory tax rates, challenges to our intercompany transactions, changes in the valuation of deferred tax assets and liabilities and changes in tax laws, regulations and policies, or in their interpretation or enforcement. Additionally, the process of evaluation of and compliance with changes in tax laws and policies may be onerous and expensive. A number of jurisdictions where we do business, including the United States, are considering, or undergoing changes in their relevant tax, accounting and other laws, regulations, policies and interpretations. Changes in tax laws, treaties or regulations, and their interpretation or enforcement, have become more unpredictable, particularly as taxing jurisdictions face an increasing number of political, budgetary and other fiscal challenges. Tax rates in the jurisdictions in which we operate may change as a result of macroeconomic and other factors outside of our control, making it increasingly difficult for multinational corporations like ourselves to operate with certainty about taxation in many jurisdictions. As a result, we could be materially adversely affected by future changes in tax law or policy (or in their interpretation or enforcement) in the jurisdictions where we operate, including the U.S., which could have a material adverse effect on our effective income tax rate, results of operations, cash flows and financial condition.

Our effective tax rate may fluctuate in the future as a result of the Tax Cuts and Jobs Act (“Tax Reform”), which was enacted on December 22, 2017. Tax Reform introduced significant changes to U.S. income tax law that will have a meaningful impact on our provision for income taxes. We continue to examine the impact Tax Reform may have on our business as technical corrections and additional regulations are released. The overall impact of this new legislation is uncertain and our business and financial condition could be adversely affected by corrections and clarifications that differ from the analysis and methodologies applied.

Due to the timing of technical corrections and regulations and the complexity involved in applying the provisions of Tax Reform, we recorded reasonable estimates of the effects in our financial statements for the year ended December 31, 2018. The U.S. Treasury Department, the Internal Revenue Service (“IRS”), and other standard-setting bodies may continue to issue guidance on how the provisions of Tax Reform will be applied or otherwise administered that is different from our interpretation. As we collect and prepare necessary data and interpret Tax Reform, any additional guidance (including technical corrections and regulations) issued by the IRS or other standard-setting bodies, we may adjust the amounts recorded that could materially affect our financial position and results of operations as well as our effective tax rate in the period in which the adjustments are made.

Future changes in tax laws, treaties or regulations, and their interpretation or enforcement, may be unpredictable, particularly as taxing jurisdictions face an increasing number of political, budgetary and other fiscal challenges. Tax rates in the jurisdictions in which we operate may change as a result of macroeconomic and other factors outside of our control, making it increasingly difficult for multinational corporations like ourselves to operate with certainty about taxation in many jurisdictions. As a result, we could be materially adversely affected by future changes in tax law or policy (or in their interpretation or enforcement) in the jurisdictions where we operate, including the United States, which could have a material adverse effect on our effective income tax rate, results of operations, cash flows

and financial condition.

We are subject to unpredictable risks of litigation.

Although we seek to avoid litigation whenever possible, from time to time we are party to various lawsuits and claims. Disputes may arise, for example, from client engagements, employment issues, regulatory actions, business acquisitions and real estate and other commercial transactions. There can be no assurances that any lawsuits or claims will be immaterial in the future. Any material lawsuits or claims could adversely affect our business and reputation. Additionally, regardless of the merits of claims, the cost to defend current and future litigation may be significant and may be time-consuming and divert management's attention and resources.

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Our work with governmental clients has inherent risks related to the governmental contracting process.

We work for various U.S., state, local and foreign governmental entities and agencies. These engagements have special risks and characteristics that include, but are not limited to, the following:

Governmental agencies generally reserve the right to audit our contract costs, including allocated indirect costs, and conduct inquiries and investigations of our business practices with respect to governmental contracts. If the governmental entity finds that the costs are not reimbursable, then we will not be allowed to bill for them or the cost must be refunded to the governmental entity if it has already been paid to us. Findings from an audit also may result in our being required to prospectively adjust previously agreed rates for work which would affect our future profit margins.

If a governmental client discovers improper or illegal activities in the course of its audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of that government.

The terms and conditions of government contracts tend to be more onerous and are often more difficult to negotiate or adhere to than other types of contracts with our clients.

Governmental contracts, and the proceedings surrounding them, are often subject to political sensitivities and more extensive scrutiny and publicity than other commercial contracts. Negative publicity related to our governmental contracts, regardless of whether it is accurate, may damage our business by impairing our professional reputation and our ability to compete for new client engagements.

Government entities typically fund projects through appropriated monies. Government entities usually reserve the right to change the scope of or terminate projects for lack of approved funding (or at their convenience). Budget deficits or shortfalls, government spending reductions or suspensions or other debt constraints could result in projects we have with government entities being reduced in price or scope or terminated altogether.

Government spending may also be subject to political conflict. For example, the funding of U.S. federal government programs is subject to an annual congressional budget authorization and appropriation process. In years when the U.S. federal government has not completed its budget process before the end of its fiscal year, government operations are typically funded pursuant to a "continuing resolution," which allows federal government agencies to operate at spending levels approved in the previous budget cycle but does not authorize new spending initiatives. When the U.S. federal government operates under a continuing resolution, delays can occur in the procurement of the services that we provide and may result in new initiatives or projects being delayed or canceled, or funds could be diverted from our services to pay for other services or operational needs determined by the U.S. federal government. Further, in years when the U.S. federal government fails to complete its budget process or to provide for a continuing resolution, a federal government shutdown may result. This could in turn result in the suspension, termination or delay of many governmental projects, which could adversely affect our business and results of operations. In addition, payments to contractors for services performed during a federal government shutdown may be delayed, which would have a negative effect on our results of operations, cash flows and financial condition. Future U.S. federal government shutdowns cannot be predicted with any certainty.

Political and economic factors, such as pending elections, the outcome of recent elections, changes in leadership among key executive or legislative decision makers, revisions of government tax or other policies and reduced tax revenues, may affect our ability to win contract awards with governmental entities as well as the number and terms of contracts we have with government entities.

The impact of any of the occurrences or conditions described above could affect not only our relationship with the particular governmental agency involved, but also other agencies of the same or other governmental entities as well as other non-governmental clients. Depending on the size of the engagement or the magnitude of the potential costs, penalties or negative publicity involved, any of these occurrences or conditions could have a material adverse effect on our business or results of operations.

Our revenues, operating income (loss) and cash flows are likely to fluctuate.

We experience periodic fluctuations in our revenues, operating income (loss) and cash flows and expect that this will continue to occur in the future due to timing and duration of our client engagements, utilization of our consultants, the types of engagements we are working on at different times, the geographic locations of our clients or where the services are rendered, the currency our fees are payable in and applicable currency exchange rates, the length of billing and collection cycles, hiring, business and asset acquisitions including the integration of those acquired businesses into our firm, and general economic factors beyond our control. We may also experience future fluctuations in our cash flows because of increases in employee compensation, including changes to our incentive compensation structure and the timing of incentive payments, which we generally pay during the first quarter of each year, or hiring or retention payments or bonuses which are paid throughout the year.



The expansion and growth of our business process management services and the evolution of our service offerings into new areas subject us to different operational risks than our traditional consulting and expert businesses.

As part of our long-term strategy, we plan to continue to expand our services and solutions into new areas. Expanding into new areas and providing services to new types of clients may expose us to additional operational, regulatory or other risks, including overestimating the demand for our services and solutions or underestimating the competition from other market participants. Additionally, we may fail to properly anticipate the cost of entry or additional expenses related to our new services. We could also incur liability if we fail to comply with laws or regulations applicable to the new services we provide our clients. These challenges may prevent the expansion and growth of our business from becoming profitable, which, in turn could affect our reputation, business and results of operations.

Our Technology, Data & Process businesses generally, and our business process management services in particular, present different operational risks when compared to our traditional consulting and expert businesses. For example, our business process management services involve managing the revenue cycle function for all or certain portions of our physician and hospital clients' businesses, including the operation, management or oversight of billing, coding and accounts receivable departments that are critical to our clients' financial performance. In addition, certain of our businesses, most significantly our business process management services business, utilize offshore personnel, including personnel in India, which exposes us to additional operational risks, including special risks associated with conducting business internationally. Disruptions in service delivery, regulatory compliance concerns, data privacy and security concerns, particularly in the billing and coding areas, labor disputes, technology issues or other performance problems could damage our clients' businesses, expose us to enhanced regulatory scrutiny and claims, and harm our reputation and our business.

If our pricing estimates do not accurately anticipate the cost, risk and complexity of performing our work, our contracts could have delivery inefficiencies or be unprofitable.

Our pricing for engagements, particularly in connection with our business process management services engagements that have multi-year pricing agreements, is highly dependent on our forecasts and predictions about the level of effort and cost necessary to deliver the applicable services and solutions. Our estimates are based on available data at the time the fees are set, and could turn out to be materially inaccurate. If we do not accurately estimate the effort, costs or timing for meeting our contractual commitments and/or completing projects to a client's satisfaction, our contracts could yield lower margins than planned, or be unprofitable. In addition, we may fail to accurately assess the risks associated with potential contracts. This could result in existing contracts and contracts entered into in the future being less profitable than expected or unprofitable, which could have an adverse effect on our overall profitability.

We could be adversely impacted by changes in accounting standards as well as estimates and assumptions by management related to significant accounting matters.

Generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters are highly complex and require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Examples include: determination of the allowance for doubtful accounts, accruals for incentive-based compensation, the fair value of acquisition-related contingent consideration, revenue recognition, the measurement of deferred tax assets, estimation of future performance for recording expenses associated with performance-based equity incentive awards, and the assessment of recoverability of intangible assets and goodwill. Changes in these rules or their interpretation or changes in the underlying estimates and assumptions made by management could significantly change our reported or expected financial performance or financial condition. For example, changes in accounting standards and the application of existing accounting standards particularly related to the measurement of fair value as compared to carrying value for our reporting units could have an adverse effect on our financial condition and results of operations. Factors that could lead to impairment of goodwill and intangible assets include significant adverse changes in the business climate and declines in the financial condition of a reporting unit. In addition, new accounting

guidance also may require systems and other changes that could increase our general and administrative expenses and/or adversely impact our financial statements. For example, implementing current or future accounting guidance related to revenue recognition, leases and other areas impacted by the current convergence project between the Financial Accounting Standards Board and the International Accounting Standards Board could require us to make significant changes to our accounting and financial reporting systems and could result in adverse changes to our financial statements.

Our divestiture of SaleCo requires us to continue providing post-divestiture transition services and support, which may cause us to incur unanticipated costs and liabilities and adversely affect our business and results of operations.

Our divestiture of SaleCo involves a number of risks, including, among other things, certain indemnification risks and risks associated with the provision of transitional services. We have agreed to provide certain transition services to Ankura, such as technological support, services and leased space. In addition, Ankura will provide certain systems, services and leased space to us during the transition period. There are risks in providing and transitioning away from shared services, as they may incur unanticipated costs and liabilities, may divert our management's and employees' attention and may adversely affect our continuing business operations. This transition services agreement with Ankura may also lead to disputes over rights to certain shared property and over the allocation of costs and revenues for products and operations in connection with the transition services agreement. In addition, there are increased opportunities for errors inherent in maintaining the books and records of two separate unrelated companies on a single enterprise resource planning system.

#### Risks Related to Technology

We have invested in specialized technology and other intellectual property for which we may fail to fully recover our investment or which may be inadequate to serve the needs of our business or become obsolete.

We have invested in developing and licensing specialized technology and intellectual property, including owned and licensed proprietary systems, processes and methodologies, that we believe provide us a competitive advantage in serving our current clients and winning new client engagements. Some of our service offerings rely on specialized technology or intellectual property that is subject to rapid change, and to the extent that this technology and intellectual property is rendered obsolete and of no further use to us or our clients, our ability to continue offering these services, and grow our revenues, could be adversely affected. There is no assurance that we will be able to develop or license competitive, innovative or improved technology or technology and intellectual property or that our technology and intellectual property will effectively compete with the intellectual property developed by our competitors. If we are unable to develop or license on favorable terms new technology and intellectual property or if our competitors develop better technology or intellectual property, our revenues and results of operations could be adversely affected. Moreover, if we fail to adequately protect our intellectual property rights from unauthorized use or infringement by third parties, our business could be adversely affected. Similarly, we may not be able to maintain our relationships with third party licensors or enter into comparable relationships in the future on terms acceptable to us or at all, and our business and results of operations could be adversely affected as a result.

In addition, the scale and complexity of our business and new service offerings may require additional information systems that we may not be able to implement in a timely or cost-effective manner. This may impair our ability to achieve our operating objectives and retain our competitive position, which in turn could adversely affect our results of operations.

Information system failures or service interruptions could affect our ability to provide services to our clients.

We may be subject to disruption to our operating systems, technology or ability to communicate with our workforce and clients as a result of events that are beyond our control including but not limited to the possibility of failures at third-party data centers, worker strikes, disruptions to the internet, political instability, natural disasters, malicious attacks, or other conditions. While we have taken steps to prevent such events and have developed disaster recovery processes, there can be no assurance that these steps will be effective in every situation. Such disruptions could adversely affect our ability to fulfill client engagements and as a result may damage our reputation and adversely affect our business and results of operations.

If the integrity of our information systems is compromised by a cyber-security event, our reputation, business and results of operations could be adversely affected.

We depend on information systems to manage and run our business. Additionally, certain services we provide require us to store, transmit or process sensitive or confidential client information, including personal consumer information and health or other personally identifiable information. In some cases, it is difficult to anticipate or to detect immediately such incidents and the damage caused thereby. While we continually work to safeguard our internal network systems and validate the security of our third-party providers, including through information security policies and employee awareness and training, there is no assurance that such actions will be sufficient to prevent cyber-attacks or security breaches. If any person, including any of our employees, subcontractors or third-party vendors with whom we contract for client consulting or data hosting services, negligently disregards or intentionally breaches the information security controls we have implemented to protect confidential information, our clients' data, or if our own data or those security controls prove to be ineffective against intrusion, we could incur legal liability and may also be subject to regulatory enforcement actions, fines and/or criminal prosecution in multiple jurisdictions, as well as remediation costs. Our potential liability in the event of a security breach of client data or our own data could be significant and depending on the circumstances giving rise to the breach, this liability may not be subject to a contractual limit of liability or an exclusion of consequential or indirect

damages. Any unauthorized disclosure of sensitive, personal or confidential client information, whether through systems failure, employee, subcontractor or vendor negligence, fraud or misappropriation, could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems, including an intentional attack by any person who may develop and deploy viruses, worms or other malicious software programs, could result in negative publicity, legal liability, significant remediation costs and damage to our reputation and could have a material adverse effect on our business and results of operations. The nature of these threats and the methods used by persons seeking to disrupt or access our information systems are rapidly evolving, which makes it increasingly difficult to anticipate, prevent or mitigate these risks. The costs and operational focus required for implementing additional protective measures may also be significant and adversely affect our business and results of operations. In the event that new data securities laws are implemented, we may not be able to timely comply with such requirements, or such requirements may not be compatible with our existing processes. Changing our processes could be time consuming and expensive, and failure to timely implement required changes could subject us to liability for non-compliance.

We may experience difficulties in implementing new business and financial systems.

From time-to-time we may update or change certain of our business and financial systems to new platforms. The integration of new modules within our enterprise resource systems could disrupt our ability to timely and accurately process and report key aspects of our revenue cycle, including billing and accounts receivable. Any such disruption could adversely affect our results of operations or financial condition and cause harm to our reputation.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our principal executive offices are leased and are located in Chicago, Illinois. We have approximately 40 other operating leases for offices with at least 20 employees, principally in the United States, which are utilized across our reporting segments. Our office space needs in certain geographic areas may change as our business expands or where we determine virtual work environments are appropriate, but we believe that our leased offices are adequate for our current needs.

Item 3. Legal Proceedings.

We are 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 4. Mine Safety Disclosures.

Not applicable.

Executive Officers of the Registrant

The following are our executive officers at February 28, 2019:

Name	Title	Age
Julie M. Howard	Chairman and Chief Executive Officer	56
Lee A. Spirer	Executive Vice President and Chief Growth and Transformation Officer	52
Stephen R. Lieberman	Executive Vice President and Chief Financial Officer	54
Monica M. Weed	Executive Vice President, General Counsel and Secretary	58



Julie M. Howard, 56, has served as our Chairman and Chief Executive Officer since May 2014 and Chief Executive Officer and a member of our board of directors since March 2012. Ms. Howard served as our President from 2006 to March 2012 and our Chief Operating Officer from 2003 to March 2012. From 2001 to 2003, Ms. Howard was our Vice President and Human Capital Officer. Prior to 2001, Ms. Howard held a variety of consulting and operational positions, including with Navigant. Ms. Howard is currently a member of the board of directors of Innerworkings Inc. and ManpowerGroup Inc. Ms. Howard also serves on the Medical Center Board for Ann & Robert H. Lurie Children's Hospital of Chicago and is a founding member of the Women's Leadership and Mentoring Alliance (WLMA). Ms. Howard is a past member of the board of directors of Kemper Corporation and the Association of Management Consulting Firms, the Dean's Advisory Board of the Business School of the University of Wisconsin – Madison and the Board of Governors for the Metropolitan Planning Council of Chicago. Ms. Howard is a graduate of the University of Wisconsin, with a Bachelor of Science degree in Finance. She has also completed several post-graduate courses within the Harvard Business School Executive Education program, focusing in finance and management.

Lee A. Spirer, 52, has served as our Executive Vice President and Chief Growth and Transformation Officer since April 2017. Mr. Spirer served as our Executive Vice President and Global Business Leader from November 2012 to April 2017. Mr. Spirer has served in a variety of strategic and operational roles in a range of professional and business services organizations. From April 2009 to May 2012, Mr. Spirer served as Senior Vice President and Global Business Head of Kroll Risk & Compliance Solutions, and prior to that, from September 2005 to February 2008, Mr. Spirer served as Senior Vice President and Global Leader of Corporate Strategy and Development for Dun & Bradstreet Corporation. From June 2001 to September 2005, Mr. Spirer held several senior management roles at IBM Business Consulting Services, last serving as General Manager, Global Financial Markets. In addition, from March 2008 to April 2009 and again from June 2012 to October 2012, Mr. Spirer served as Managing Partner of LAS Advisory Services, advising private equity and venture capital firms on a variety of strategic and operational issues. Mr. Spirer is a graduate of The Wharton School with a Master's degree in Business Administration and Brandeis University with a Bachelor's degree in Economics, with high honors and Phi Beta Kappa.

Stephen R. Lieberman, 54, has served as our Executive Vice President and Chief Financial Officer since April 2016. Prior to joining Navigant, from January 2012 to April 2016, Mr. Lieberman served as Senior Vice President, Finance and Chief Financial Officer, Latin America for Laureate Education, Inc., a global network of private higher education institutions. From March 2011 to January 2012, Mr. Lieberman served as Senior Vice President, Finance for Dana Holding Corporation, a vehicle component supplier, and prior to that, from September 2006 to October 2010, he served as Vice President and Treasurer of United Airlines. Mr. Lieberman also spent nearly 15 years at General Motors in various capacities, including Treasurer and Controller General for the auto manufacturer's Mexico operations and the Treasurer of the Asia Pacific Regional Treasury Center, Greater China. Mr. Lieberman received a Bachelor of Science degree in Electrical Engineering and a Master's degree in Business Administration from the University of Michigan.

Monica M. Weed, 58, has served as our Executive Vice President since October 2013 and General Counsel and Secretary since November 2008. Previously, Ms. Weed served as Associate General Counsel for Baxter Healthcare Corporation from March 2006 to October 2008. From March 2004 to March 2006, Ms. Weed served as Special Counsel, Rights Agent and Litigation Trustee to Information Resources, Inc. Litigation Contingent Payment Rights Trust, a publicly traded litigation trust. From 1991 through 2004, Ms. Weed served in a variety of legal roles, including Executive Vice President, General Counsel and Corporate Secretary for Information Resources, Inc., an international market research provider to the consumer-packaged goods industry. She started her legal career at the law firm of Sonnenschein Nath & Rosenthal LLP (now Dentons). Ms. Weed received a Bachelor of Arts in Classics from Northwestern University, a law degree from the Northwestern University School of Law and a Master's degree in Business Administration from the Kellogg Graduate School of Management, Northwestern University.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Our common stock is traded on the New York Stock Exchange under the symbol "NCI."

#### Holders

As of February 22, 2019, there were 146 holders of record of our shares of our common stock.

Shares of our common stock that are registered in the name of a broker or other nominee are listed as a single shareholder on our record listing, even though they are held on behalf of a number of individual shareholders. As such, our actual number of beneficial shareholders is substantially higher than the number of our shareholders of record.

As of December 31, 2018, there were 41,273,282 shares of our common stock issued and outstanding.

#### Dividends

During the year ended December 31, 2018, we declared and paid a dividend of \$0.05 per share payable on September 14, 2018 to shareholders of record on September 7, 2018 and declared and paid a dividend of \$0.05 per share payable on December 14, 2018 to shareholders of record on November 30, 2018. We did not declare or pay any dividends during the year ended December 31, 2017. Dividend and other capital structure policy issues are reviewed on a periodic basis by our board of directors. In addition, the covenants in our credit agreement may limit our ability to pay dividends in the future.

#### Shareholder Return Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholder return on our common stock against the New York Stock Exchange Market Index ("NYSE Index") and the peer group described below. The graph assumes that \$100 was invested on December 31, 2013 in each of our common stock, the NYSE Index and the peer group. The graph also assumes that all dividends, if paid, were reinvested.

Note: The stock price performance shown below is not necessarily indicative of future stock price performance.



Measurement Period	Navigant Consulting Inc.	NYSE Index	New Peer Group (a)	Old Peer Group (b)
FYE 12/31/13	\$ 100.00	\$ 100.00	\$ 100.00	\$ 100.00
FYE 12/31/14	80.05	106.87	110.10	109.24
FYE 12/31/15	83.64	102.61	112.30	112.74
FYE 12/31/16	136.34	114.98	130.49	124.34
FYE 12/31/17	101.08	136.69	154.72	147.65
FYE 12/31/18	125.75	124.66	171.32	160.86

a) The new peer group consists of the following companies: CBIZ Inc., CRA International Inc. (formerly known as Charles River Associates, Inc.), Evolent Health, Inc., Exponent, Inc., FTI Consulting, Inc., Inc., Gartner, Inc. (formerly known as Gartner Group, Inc.), Heidrick & Struggles International Inc., Hill International, Inc., HMS Holdings Corp., Huron Consulting Group Inc., ICF International, Inc., IHS Markit Ltd., Korn/Ferry International, MAXIMUS, Inc., Proficient Inc., Resources Connection, Inc., and Tetra Tech, Inc., and except as noted below, is the same peer group that is used by the compensation committee of our board of directors for purposes of evaluating executive compensation decisions. The peer group is weighted by market capitalization.

b) The old peer group also included The Advisory Board Co., which has been excluded from the new peer group included in the performance graph above for the year ended December 31, 2018, as this entity has been recently acquired. The performance data in the graph and table above include the share price performance of The Advisory Board Co. through November 17, 2017, its last day of trading.

The foregoing performance graph is being furnished as part of this report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish our shareholders with such information, and therefore, shall not be deemed to be filed or incorporated by reference into any filings by Navigant under the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended.

#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth repurchases of our common stock during the fourth quarter of 2018:

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)
Oct 1 - 31, 2018	941,509	\$ 22.24	941,509	\$114,419,418
Nov 1 - 30, 2018	829,703	\$ 22.81	829,703	\$95,491,475

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Dec 1 - 31, 2018	730,034	\$ 23.60	730,034	\$78,264,345
Total	2,501,246	\$ 22.83	2,501,246	\$78,264,345

(a) On May 10, 2018, our board of directors increased the amount available under the Company's stock repurchase authorization to \$175 million and extended the authorization through December 31, 2020.

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## Item 6. Selected Financial Data.

The following five-year financial and operating data should be read in conjunction with the information set forth under Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto appearing elsewhere in this report. The amounts are shown in thousands, except for per share data.

During the year ended December 31, 2018, we sold our former Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within our Financial Services Advisory and Compliance segment and, as such, the results have been reclassified to discontinued operations to reflect this transaction for all periods presented. As a result of the sale, we recorded a \$84.4 million pre-tax gain on sale. Further information on this transaction is presented in Note 3 –Dispositions and Discontinued Operations to the notes to our consolidated financial statements. Also during the year ended December 31, 2018, we commenced operation of our joint venture HSS, with Baptist Health South Florida. We have a 60% financial and controlling interest in HSS and as such we fully consolidate its operations. As a result, beginning in the year ended December 31, 2018, there will be income attributable to non-controlling interests, net of tax in our consolidated statements of comprehensive income as well as non-controlling interest included in our balance sheet from and after December 31, 2018.

During the year ended December 31, 2017, we recognized a \$29.8 million net tax benefit as a result of Tax Reform, which was signed into law December 22, 2017. Of this benefit, \$18.6 million was recognized in continuing operations. Further information on the tax impacts of Tax Reform is presented in Note 16 – Income Taxes to the notes to our consolidated financial statements.

	For the year ended				
	December 31,				
	2018	2017	2016	2015	2014
Revenues before reimbursements	\$ 672,694	\$ 636,942	\$ 619,787	\$ 517,145	\$ 456,919
Reimbursements	70,920	77,124	76,281	65,012	68,668
Total revenues	743,614	714,066	696,068	582,157	525,587
Cost of services before reimbursable expenses	479,572	443,423	417,058	351,336	305,151
Reimbursable expenses	70,920	77,124	76,281	65,012	68,668
Total cost of services	550,492	520,547	493,339	416,348	373,819
General and administrative expenses	138,571	139,024	137,693	120,918	108,215
Depreciation expense	20,040	20,398	19,631	15,637	12,381
Amortization expense	6,461	8,574	10,711	7,109	2,803
Other operating costs (benefit)	3,128	2,600	1,872	(9,900 )	(3,465 )
Operating income	24,922	22,923	32,822	32,045	31,834
Interest expense	2,708	3,022	3,181	2,988	3,597
Interest income	(1,988 )	(320 )	(140 )	(204 )	(269 )
Other expense (income), net	119	895	(1,754 )	(717 )	(169 )
Income from continuing operations before					
income tax expense	24,083	19,326	31,535	29,978	28,675
Income tax expense (benefit)	8,900	(12,031 )	13,237	4,300	11,490
Net income from continuing operations	15,183	31,357	18,298	25,678	17,185
Income (loss) from discontinued operations, net of tax	105,848	43,595	39,800	34,667	(53,583 )
Net income (loss)	121,031	74,952	58,098	60,345	(36,398 )
Less: Income attributable to non-controlling interest, net of tax	(389 )	-	-	-	-
	\$ 120,642	\$ 74,952	\$ 58,098	\$ 60,345	\$ (36,398 )

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Net income (loss) attributable to Navigant Consulting, Inc.

Basic per share data

Net income from continuing operations attributable to Navigant Consulting, Inc.	\$ 0.33	\$ 0.67	\$ 0.39	\$ 0.54	\$ 0.35
Income (loss) from discontinued operations, net of tax	2.39	0.94	0.84	0.72	(1.10 )
Net income (loss) attributable to Navigant Consulting, Inc. (1)	\$ 2.72	\$ 1.61	\$ 1.23	\$ 1.26	\$ (0.75 )
Shares used in computing per basic share data	44,328	46,593	47,343	47,906	48,741

Diluted per share data

Net income from continuing operations attributable to Navigant Consulting, Inc.	\$ 0.32	\$ 0.65	\$ 0.37	\$ 0.52	\$ 0.34
Income (loss) from discontinued operations, net of tax	2.31	0.90	0.82	0.70	(1.07 )
Net income (loss) attributable to Navigant Consulting, Inc. (1)	\$ 2.64	\$ 1.55	\$ 1.19	\$ 1.23	\$ (0.73 )
Shares used in computing per diluted share data	45,727	48,226	48,813	49,224	49,976

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

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Balance Sheet Data (2)	At December 31,				
	2018	2017	2016	2015	2014
Cash and cash equivalents	\$ 206,920	\$ 8,449	\$ 8,291	\$ 8,895	\$ 2,648
Working capital	263,539	359,537	124,834	111,344	70,501
Total assets	917,547	1,080,264	1,054,797	1,015,896	903,493
Total non-current liabilities	59,178	196,144	245,346	278,418	200,506
Total Navigant Consulting, Inc. stockholders' equity	708,564	687,334	634,477	593,538	542,591
Total stockholders' equity	712,553	687,334	634,477	593,538	542,591

(2) Working capital and Total non-current liabilities as of December 31, 2017 have been restated for the reclassification of all of the related assets and liabilities of SaleCo as current since the transaction closed in August 2018. The balance sheet data for the years ended December 31, 2016, 2015 and 2014 have not been restated, as the related non-current assets and liabilities remained non-current as of those dates.

## Item 7. 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 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 "Risk Factors."

### Overview

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

On August 24, 2018, we completed the previously announced sale of our former Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within our Financial Services Advisory and Compliance segment to Ankura. The sale represented a strategic shift in our services and in accordance with the applicable guidance the results from operations of SaleCo have been classified as discontinued operations for all periods presented. All other operations are considered "continuing operations" and have been presented in our three remaining segments. In addition, the assets and liabilities of SaleCo prior to the sale were classified as assets held for sale and liabilities held for sale. See Note 3 — Dispositions and Discontinued Operations to the notes to our consolidated financial statements for further information.

### Revenues and Expenses

Our clients' demand for our services ultimately drives our revenues and expenses. We derive our revenues from fees on services provided. The most common type of contract through which our revenues are generated is on a time and materials basis. We also have engagements where fees are a fixed amount (either in total or for a period of time). We may also earn incremental revenues, in addition to hourly or fixed fees, which are contingent on the attainment of certain event-based or performance-based contractual milestones or outcomes. We estimate and recognize the revenue from such contingent fees over the period of performance to the extent that it is probable that a significant reversal will not occur. Variations in our quarterly or annual revenues and resulting operating profit margins may occur depending on, among other things, our ability to estimate fees associated with contingent outcomes or, in certain contracts, our ability to achieve performance metrics indicative of the value provided to the client, and therefore to be recognized in the period. Revenues are also earned on a per unit or subscription basis. On January 1, 2018, we adopted ASU 2014-09, which, along with amendments issued in 2015 and 2016 (collectively referred to as "Topic 606"), supersedes the revenue recognition requirements in ASC 605, "Revenue Recognition" and most industry-specific guidance. We adopted Topic 606, Revenue from Contracts with Customers, on a modified retrospective basis. As such, results for the year ended December 31, 2018 are presented under the new standard while the comparable results are presented using our historic accounting. During the year ended December 31, 2018 we recorded \$1.2 million in estimated event-based fees as a result of the new guidance. See Note 4 – Revenue Recognition to the notes to our consolidated financial statements for further information.

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

Our most significant overhead expenses included in general and administrative expense are administrative compensation and office-related expenses. Administrative compensation includes salaries, incentive compensation, share-based compensation and benefits for corporate management and other non-billable employees that indirectly

support client engagements. Office-related expenses primarily consist of rent for our offices. General and administrative expense includes bad debt expense, technology, finance, human capital management, marketing and legal expenses. Certain non-billable employees who support the reporting segments are recorded in cost of services before reimbursable expenses.

We periodically review and adjust our employees' total compensation (which may include salaries, annual cash incentive compensation, other cash and share-based compensation, and benefits) to ensure that it is competitive within the industry and is consistent with our performance. We also monitor and adjust our bill rates for our service offerings and within the various industries we serve, depending on market conditions.

## Hiring and Retention

Because our ability to derive fees is largely reliant on the hiring and retention of employees, the average number of full-time employees and our ability to keep client-service employees utilized are important drivers of the business. We use full-time equivalent (“FTE”) as a measure of our client-service employees. The number of Client-Service FTE is client-service employees adjusted for part-time employees and project employees and takes into account hiring and attrition which occurred during the reporting period. Our average utilization rate as defined below provides a benchmark for how well we are managing our Consulting FTE levels in response to changing demand.

Client-Service FTE levels and related compensation in excess of demand drive additional costs that can negatively impact operating profit margin. From time to time, we engage independent contractors and hire project employees to supplement our Client-Service FTE on certain engagements, which allows us to adjust staffing in response to changes in demand for our services and manage our costs accordingly.

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

## Technology

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

## Acquisitions

We have made small acquisitions during the three years ended December 31, 2018, which collectively do not have a material impact on our financial condition or results of operations.

## Additional Highlight

On April 10, 2018, we announced that we formed HSS, a joint venture with Baptist Health South Florida in which we own a 60% interest. Through this joint venture, we leverage the business process management services team within the Healthcare segment to help drive efficiencies and improved revenue collection, cash flow and cost management for Baptist Health South Florida. We commenced operation of HSS during the three months ended September 30, 2018, during the early ramp-up stage we expect lower profitability than our on-going business process management service engagements.

## 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, 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 that are not included in average bill rate and average utilization metrics described below.

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

•Period-end FTE — headcount at the last day of the reporting period adjusted for part-time status. The criteria described in Consulting FTE, Technology, Data & Process FTE and Non-billable FTE also apply to period-end FTE.

• Average bill rate is calculated by dividing fee revenues before certain adjustments such as discounts and markups, by the number of hours associated with the fee revenues. Revenues recognized on the attainment of certain event-driven contractual milestones (event-based) and those related to 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. 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 FTE. Long-term compensation expense attributable to Client-Service FTE includes share-based compensation expense and compensation expense attributable to retention incentives.

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

## Results of Operations

### Overview

Key highlights of our results of operations for the years ended December 31, 2018 and 2017 were:

Revenues before reimbursements (“RBR”) increased 5.6% over the prior year period (see “Segment Results” below). RBR increased over the prior year in all three of our segments with 14.0% growth within our Financial Services Advisory and Compliance and 12.1% growth within our Energy segment, while our Healthcare segment grew at 0.8%. Event-based fees for the years ended December 31, 2018 and 2017 were \$8.5 million and \$11.1 million, respectively, mainly within our Healthcare segment. Cost of services before reimbursable expenses increased by 8.2% and general and administrative expenses were relatively flat year over year. Income from discontinued operations, net of tax, increased 142.8% mainly due to the gain on sale. Our effective income tax rate for the years ended December 31, 2018 and 2017, on a continuing basis was 37.0% and a benefit of 62.3%, respectively. The 2017 rate is a benefit primarily due to the impact of Tax Reform, which was enacted on December 22, 2017. See income tax expense below for further details. Net income attributable to Navigant Consulting, Inc. for the years ended December 31, 2018 and 2017 was \$120.6 million and \$75.0 million, respectively, primarily as a result of a \$68.5 million gain, net of tax, on the sale recognized during the year ended December 31, 2018. Further explanations are provided below.

Key highlights of our results of operations for the years ended December 31, 2017 and 2016 were:

RBR were comparable to the prior year period, with higher RBR in our Healthcare segment and contributions from the November 2016 acquisition of Ecofys within the Energy segment offset by lower RBR in our Financial Services Advisory and Compliance segment. Event-based fees for the years ended December 31, 2017 and 2016 were \$11.1 million and \$3.2 million, respectively, mainly due to fees earned within our Healthcare segment. See Segment Results below for further discussion on RBR. Cost of services before reimbursable expenses increased 6.3% while general and administrative expenses increased 1.0%. Net income attributable to Navigant Consulting, Inc. for the years ended December 31, 2017 and 2016 was \$75.0 million and \$58.1 million, respectively. Our effective income tax rate for the years ended December 31, 2017 and 2016, on a continuing basis, was a benefit of 62.3%, mainly as a result of Tax Reform discussed in the paragraph above, and an expense of 42.0%, respectively.



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Note: The FTE data in this table are presented on a continuing operations basis.

	For the year ended December 31,			2018 over 2017 Increase (Decrease) Percentage	2017 over 2016 Increase (Decrease) Percentage
	2018	2017	2016		
<b>Key operating metrics:</b>					
<b>Average FTE</b>					
-Consulting	1,386	1,386	1,260	-	10.0
-Technology, Data & Process	3,141	2,816	2,528	11.5	11.4
-Non-billable	843	731	636	15.3	14.9
<b>Period end FTE</b>					
-Consulting	1,427	1,394	1,405	2.4	(0.8 )
-Technology, Data & Process	3,630	2,870	2,561	26.5	12.1
-Non-billable	895	765	693	17.0	10.4
Average bill rate	\$255	\$260	\$260	(1.9 )	-
Utilization	70	% 72	% 73	% (2.8 )	(1.4 )

#### Key Operating Metrics

Average FTE – Consulting for the year ended December 31, 2018 compared to the year ended December 31, 2017 was flat, as overall hires within the Financial Services Advisory and Compliance segment were offset by reductions within our Healthcare segment. Average FTE – Technology, Data & Process increased 11.5% for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase was mainly a result of HSS in our Healthcare segment and our managed services engagement within Financial Services Advisory and Compliance segment. Utilization levels were 70% and 72% for the years ended December 31, 2018 and 2017, respectively, and average bill rate decreased 1.9% to \$255 over the same periods, primarily attributable to an increase in lower bill rate engagements mainly within our Healthcare and Financial Services Advisory and Compliance segments. Average Non-billable FTE increased 15.3% for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase primarily relates to the transfer of Consulting FTE from our Healthcare segment and new hires to support the buildout of a centralized data management and analytic team largely located in India.

Average FTE – Consulting increased 10.0% for the year ended December 31, 2017 compared to the year ended December 31, 2016, mainly due to the acquisition of Ecofys within our Energy segment in November 2016, as well as additional hiring within certain growth areas including our Healthcare segment. Average FTE – Technology, Data & Process increased 11.4% for the year ended December 31, 2017 compared to the year ended December 31, 2016, mainly to support additional business process management services work within our Healthcare segment. A portion of the increase in Average FTE – Technology, Data & Process was due to the expansion of our team located in India. Average Non-billable FTE increased 14.9% for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase primarily relates to the centralization of an analytic team located both in the U.S. and in India which was done to create cross company efficiencies for corporate and practice support functions. The increase is partially offset by a reduction in administrative FTE. Utilization levels were 72% and 73% for the years ended December 31, 2017 and 2016, respectively, and average bill rate was consistent at \$260 over the same periods. Utilization and bill rate are further described below under Segment Results.

Results for the year ended December 31, 2018 compared to the year ended December 31, 2017

Revenue before Reimbursements. See Segment Results below for further discussion on RBR.

Cost of Services before Reimbursable Expenses. Cost of services before reimbursable expenses increased by 8.2% for the year ended December 31, 2018 compared to the year ended December 31, 2017 mainly due to increased compensation and benefits expense relating to recent hires within our Financial Services Advisory and Compliance segment and HSS, our recently formed joint venture. Severance expense relating to Client-Service FTE was \$2.3 million and \$3.0 million for the years ended December 31, 2018 and 2017, respectively. The decrease was mainly due to actions taken within our Energy segment in the prior year that did not occur in the current year.

**General and Administrative Expenses.** General and administrative expenses remained relatively flat for the year ended December 31, 2018 compared to the year ended December 31, 2017. Lower communication and computer expenses as well as allocations of work performed as a result of the transition services agreement entered into as a result of the disposition of SaleCo, were offset by higher incentive compensation due to company performance, accelerated stock-based compensation expense and audit fees. Bad debt expense for the year ended December 31, 2018 and 2017 was \$3.7 million for both periods. Severance expense for the year ended December 31, 2018 and 2017 was \$0.2 million and \$1.6 million, respectively.

General and administrative including bad debt expenses as a percent of RBR were 20.6% for the year ended December 31, 2018 as compared to 21.8% for the year ended December 31, 2017. General and administrative expenses as a percent of RBR is higher than historical norms due to the absorption of costs relating to SaleCo which were not allocated to discontinued operations due to them not being directly identifiable. However, we do expect these costs to be reduced over time.

**Depreciation Expense.** The decrease in depreciation expense of 1.8% for the year ended December 31, 2018 compared to the year ended December 31, 2017 was primarily due to the lower level of capital spending during the year ended December 31, 2018.

**Amortization Expense.** Amortization expense decreased 24.6% for the year ended December 31, 2018 compared to the year ended December 31, 2017. The decrease was primarily due to reduced amortization relating to certain intangible assets as their useful lives came to term, as acquisition activity in recent years has slowed down.

**Other Operating Costs (Benefit):** Other operating costs for the year ended December 31, 2018 was \$3.1 million, primarily related to legal costs associated with considerations of the SaleCo transaction, that were incurred prior to the execution of the purchase agreement, as well as certain costs associated with additional disclosure obligations in connection with a shareholder activism matter and the impairment of certain software, partially offset by a favorable contingent acquisition liability adjustment. Other operating costs for the year ended December 31, 2017 was \$2.6 million primarily relating to fair value adjustments to our estimated deferred contingent acquisition liabilities. For additional information, see Note 17 – Fair Value to the notes to our consolidated financial statements.

**Interest Expense.** Interest expense decreased 10.4% or \$0.3 million for the year ended December 31, 2018 compared to the year ended December 31, 2017. The decrease was mainly due to the full repayment of all outstanding indebtedness during the third quarter of 2018 from the proceeds of the SaleCo transaction. Average borrowing rate was 3.4% and 2.6% for the years ended December 31, 2018 and 2017, respectively.

**Interest Income.** Interest income increased \$1.7 million for the year ended December 31, 2018 compared to the year ended December 31, 2017 mainly due to investing our excess cash in short-term investments, including money market accounts and short-term CDs, during the second half of 2018. Following the disposition of SaleCo, we are investing excess cash from the proceeds. The investments qualify as cash and cash equivalents under US GAAP.

**Income Tax Expense.** Our effective income tax rate fluctuates based on the mix of income earned in various tax jurisdictions, including U.S. state and foreign jurisdictions 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 was an expense of 37.0% and a benefit of 62.3% for the years ended December 31, 2018 and 2017, respectively. The 2017 tax rate is a benefit primarily due to the impact of Tax Reform, which was enacted on December 22, 2017. During the year ending December 31, 2018, we reached an IRS audit settlement for year 2014 that increased income tax expense by \$1.8 million. The adjustments from the 2014 IRS audit provided for a change in accounting method with respect to the ongoing deductibility of certain compensation expenses. The audit settlement related to the timing of the deductions for specific performance-based bonuses. The largest impact of the adjustment

relates to the 2014 tax year, as the timing differences reverse in the following years. See Note 16 – Income Taxes for additional information. During the year ended December 31, 2017, we recognized a \$29.8 million tax benefit as a result of revaluing the U.S. ending net deferred tax liabilities from 35% to the then newly enacted U.S. corporate income tax rate of 21%. Of this benefit, \$18.6 million was recognized in continuing operations. The lower enacted rate is expected to drive lower effective tax rates in the future. Further information on the components of the effective tax rates for the years ended December 31, 2018 and 2017, is presented in Note 16 – Income Taxes to the notes to our consolidated financial statements.

Income from discontinued operations, net of tax. Income from discontinued operations, net of tax, increased \$62.2 million for the year ended December 31, 2018 compared to the year ended December 31, 2017 mainly due to the gain on the disposition of SaleCo of \$68.5 million, net of tax (See Note 3 – Dispositions and Discontinued Operations to the notes to our consolidated financial statements). The current year also benefited from lower effective tax rates due to certain provision eligibilities. These increases were partially offset by a decrease relating to a full year of SaleCo operating results in the operations included in the prior period compared to approximately eight months in the current period.

Results for the year ended December 31, 2017 compared to the year ended December 31, 2016

Revenue before Reimbursements. See Segment Results below for further discussion on RBR.

Cost of Services before Reimbursable Expenses. Cost of services before reimbursable expenses increased 6.3% for the year ended December 31, 2017 compared to the year ended December 31, 2016. The increase was primarily due to higher compensation and benefits expenses resulting from Client-Service FTE increases discussed in “Key Operating Metrics” above as well as annual wage increases. In addition, technology and outside services expense increased during the same period. These increases were partially offset by lower incentive-based compensation due to lower operating performance. Severance expense relating to Client-Service FTE was \$3.0 million and \$2.5 million for the years ended December 31, 2017 and 2016, respectively, as part of certain performance improvement initiatives.

General and Administrative Expenses. General and administrative expenses increased 1.0% for the year ended December 31, 2017 compared to the year ended December 31, 2016 mainly due to higher facilities expenses due to duplicate rent expense related to our Chicago headquarters move (as we occupied our old Chicago offices until completion of the build-out of the new space), our San Francisco office consolidation, bad debt expense and computer expenses related to cloud computing and Enterprise Resource Planning (“ERP”) system implementation costs. These increases were mostly offset by lower compensation and benefits, which were down despite higher severance expense and higher Non-billable FTE. Corporate meetings and re-branding costs were also lower for the year ended December 31, 2017 compared to the year ended December 31, 2016. Severance expense for the years ended December 31, 2017 and 2016 was \$1.6 million and \$0.3 million, respectively. Bad debt expense for the years ended December 31, 2017 and 2016 was \$3.7 million and \$1.4 million, respectively.

General and administrative expenses were 21.8% of RBR for the year ended December 31, 2017 as compared to 22.2% for the year ended December 31, 2016.

Depreciation Expense. The increase in depreciation expense of 3.9% for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to increased leasehold improvements, technology and software spending.

Amortization Expense. Amortization expense decreased 20.0% for the year ended December 31, 2017 compared to the year ended December 31, 2016. The decrease was primarily due to reduced amortization relating to certain intangible assets as their useful lives came to term, partially offset by the allocation of purchase price to intangible assets of recent acquisitions.

Other Operating Costs (Benefit):

During the years ended December 31, 2017 and 2016, we recorded costs of \$2.2 million and \$1.3 million, respectively, relating to fair value adjustments to our estimated deferred contingent acquisition liabilities and which represent the largest components of Other operating costs. For additional information, see Note 17 – Fair Value and Note 14 – Other Operating Costs (Benefit) to the notes to our consolidated financial statements.

Interest Expense. Interest expense decreased 5.0% or \$0.2 million for the year ended December 31, 2017 compared to the year ended December 31, 2016. The decrease was mainly due to lower financing fees, imputed interest and average borrowings, partially offset by higher interest rates. Average borrowing rates were 2.6% and 2.3% for the years ended December 31, 2017 and 2016, respectively.

Other Income, Net. The decrease of 151.0% or \$2.6 million for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to the losses resulting from non-functional currency transactions occurring in our U.K.-based entity where the local currency (the U.K. Pound Sterling) strengthened relative to the U.S. dollar.



Income Tax Expense. Our effective income tax rate fluctuates based on the mix of income earned in various tax jurisdictions, including U.S. state and foreign jurisdictions 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 years ended December 31, 2017 and 2016 was a benefit of 62.3% and an expense of 42.0%, respectively. The 2017 effective rate was a benefit due to the impact of Tax Reform enacted on December 22, 2017. During the year ended December 31, 2017, we recognized a \$29.8 million tax benefit as a result of revaluing the U.S. ending net deferred tax liabilities from 35% to the newly enacted U.S. corporate income tax rate of 21%. Of this benefit, \$18.6 million was recognized in continuing operations. The lower enacted rate is expected to drive lower effective tax rates in the future. Further information on the components of the effective tax rates for the years ended December 31, 2017 and 2016, is presented in Note 16 – Income Taxes to the notes to our consolidated financial statements.

## Segment Results

As a result of the disposition of our former Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within our Financial Services Advisory and Compliance segment (collectively, “SaleCo”), its operations have been reported in accordance with ASC Topic 205 as “discontinued operations” for all periods presented. Accordingly, we have eliminated SaleCo from our segment results. See Note 3 – Dispositions and Discontinued Operations and Note 5 – Segment Information to the notes to our consolidated financial statements for further information. All other operations are considered “continuing operations.”

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

- Healthcare

- Energy

- Financial Services Advisory and Compliance

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 5 — Segment Information to the notes to our 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 10 — Supplemental Consolidated Balance Sheet Information to the notes to our consolidated financial statements). See Management’s Discussion and Analysis of Financial Condition and Results of Operations — Key Operating Metrics for definitions.

In the first quarter of 2018, we moved our life sciences regulatory and compliance related business from the former Disputes, Forensics and Legal Technology reporting segment into the Healthcare reporting segment. This change aligned this business with our life sciences team as part of the Healthcare segment, as they have comparable client types and address similar business issues and industry dynamics. Prior year results have been adjusted to conform to the current year presentation for this change as well as for the SaleCo disposition discussed above.

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

## Healthcare

	For the year ended			2018 over	2017 over
	December 31,			2017	2016
	2018	2017	2016	Increase (Decrease) Percentage	Increase (Decrease) Percentage
Revenues before reimbursements (in 000s)	\$ 389,111	\$ 386,107	\$ 366,472	0.8	5.4
Total revenues (in 000s)	\$ 421,352	\$ 422,515	\$ 404,346	(0.3 )	4.5
Segment operating profit (in 000s)	\$ 104,928	\$ 116,369	\$ 118,468	(9.8 )	(1.8 )
Key segment operating metrics:					
Segment operating profit margin	27.0	% 30.1	% 32.3	% (10.3 )	(6.8 )
Average FTE - Consulting	633	663	616	(4.5 )	7.6
Average FTE - Technology, Data & Process	2,932	2,663	2,466	10.1	8.0
Average utilization rates based on 1,850 hours	70	% 73	% 76	% (4.1 )	(3.9 )

Average bill rate	\$ 271	\$ 278	\$ 274	(2.5 )	1.5
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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, the implementation of a new electronic health records system and product planning and commercialization expertise.

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Year ended December 31, 2018 compared to the year ended December 31, 2017

RBR for this segment increased 0.8% for the year ended December 31, 2018 compared to the year ended December 31, 2017, mainly due to increases in RBR resulting from HSS, the newly formed joint venture with Baptist Health South Florida as well as increased demand for life sciences engagements. These increases were mostly offset by fewer large Healthcare consulting engagements and lower event-based fees. Event-based fees were \$8.4 million and \$10.6 million for the year ended December 31, 2018 and 2017, respectively.

Average FTE – Consulting decreased 4.5% for the year ended December 31, 2018 compared to the year ended December 31, 2017 due to planned reductions in headcount in the first quarter of 2018 and attrition in the period. Average FTE – Technology, Data & Process increased 10.1% for the year ended December 31, 2018 compared to the year ended December 31, 2017 mainly due to HSS. Utilization decreased 4.1% and average bill rate decreased 2.5% to \$271 for the year ended December 31, 2018 compared to the year ended December 31, 2017. Utilization decreased in 2018 due to lower demand for consulting engagements discussed above. Average bill rate decreased in 2018 mainly due to a change in project mix.

For the year ended December 31, 2018 compared to the year ended December 31, 2017, segment operating profit and segment operating profit margin decreased \$11.4 million and 3.1 percentage points, respectively. These decreases were attributable to higher strategic development costs, increased headcount within our business process management services and the maintenance of resources in consulting in anticipation of improving demand for those services, partially offset by higher RBR. In addition, the start-up of the joint venture has decreased segment operating profit margin as anticipated. Severance expense for the year ended December 31, 2018 and 2017 was \$1.9 million and \$1.7 million, respectively.

Year ended December 31, 2017 compared to the year ended December 31, 2016

RBR for this segment increased 5.4% for the year ended December 31, 2017 compared to the year ended December 31, 2016. The RBR increase was driven by an increase in our business process management services engagements and increased demand by life sciences companies for commercialization solutions, as well as higher demand from providers for large strategy-led transformation projects in the first half of the year. In addition, event-based fees were \$10.6 million and \$3.2 million for the years ended December 31, 2017 and 2016, respectively.

Average FTE – Consulting increased 7.6% for the year ended December 31, 2017 compared to the year ended December 31, 2016 mainly due to additional campus hiring to meet the higher demand discussed above. Average FTE – Technology, Data & Process increased 8.0% for the year ended December 31, 2017 compared to the year ended December 31, 2016 due to the increase in business process management services engagements discussed above, partially offset by a transfer of personnel to the Financial Services Advisory and Compliance segment. A portion of this increase in Average FTE – Technology, Data & Process was due to the expansion of our team located in India. Utilization decreased 3.9% for the year ended December 31, 2017 compared to the year ended December 31, 2016 as hiring preceded a slower than expected sales cycle. Average bill rate increased 1.5% to \$278 mainly due to a change in project mix.

For the year ended December 31, 2017 compared to the year ended December 31, 2016, segment operating profit and segment operating profit margin decreased \$2.1 million and 2.2 percentage points, respectively. The decrease was mainly due to higher compensation and benefits related to increased Client-Service FTE, partially offset by an increase in RBR, mainly within the business process management services practice. In addition, a higher percentage of the segment's business came from lower margin engagements.

Energy

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	For the year ended			2018 over	2017 over
	December 31,			2017	2016
	2018	2017	2016	Increase (Decrease) Percentage	Increase (Decrease) Percentage
Revenues before reimbursements (in 000s)	\$ 139,523	\$ 124,492	\$ 115,940	12.1	7.4
Total revenues (in 000s)	\$ 164,764	\$ 146,425	\$ 133,612	12.5	9.6
Segment operating profit (in 000s)	\$ 44,321	\$ 33,783	\$ 32,637	31.2	3.5
Key segment operating metrics:					
Segment operating profit margin	31.8	% 27.1	% 28.1	% 17.3	(3.6 )
Average FTE - Consulting	455	453	377	0.4	20.2
Average FTE - Technology, Data & Process	57	59	62	(3.4 )	(4.8 )
Average utilization rates based on 1,850 hours	68	% 66	% 72	% 3.0	(8.3 )
Average bill rate	\$ 212	\$ 206	\$ 205	2.9	0.5

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

Year ended December 31, 2018 compared to the year ended December 31, 2017

RBR for this segment increased 12.1% for the year ended December 31, 2018 compared to the year ended December 31, 2017, due to organic growth across the segment.

Average FTE – Consulting increased 0.4% for the year ended December 31, 2018 compared to the year ended December 31, 2017 due to recent hiring of lower level Consulting FTE’s partially offset by actions taken during 2017. Average FTE –Technology, Data & Process was relatively flat for the year ended December 31, 2018 compared to the year ended December 31, 2017. Utilization increased 3.0% for the year ended December 31, 2018 compared to the year ended December 31, 2017 due to increased demand. Average bill rate increased 2.9% to \$212, mainly due to annual increases and project mix.

For the year ended December 31, 2018 compared to the year ended December 31, 2017, segment operating profit and segment operating profit margin increased \$10.5 million and 4.7 percentage points, respectively. These results were attributable to the RBR growth partially offset by higher incentive-based compensation due to increased performance.

Year ended December 31, 2017 compared to the year ended December 31, 2016

RBR for this segment increased 7.4% for the year ended December 31, 2017 compared to the year ended December 31, 2016, mainly due to the contributions from the November 2016 acquisition of Ecofys, partially offset by lower RBR related to a lower government work.

Average FTE – Consulting increased 20.2% for the year ended December 31, 2017 compared to the year ended December 31, 2016, mainly due to the acquisition of Ecofys. Average FTE – Technology, Data & Process decreased 4.8% for the year ended December 31, 2017 compared to the year ended December 31, 2016. Utilization decreased 8.3% due to lower utilization levels at Ecofys, which we expect to improve over time as we work to align the Ecofys and Navigant models, as well as lower utilization in other consulting practices. Average bill rate remained relatively flat for the year ended December 31, 2017 compared to the year ended December 31, 2016.

For the year ended December 31, 2017 compared to the year ended December 31, 2016, segment operating profit increased \$1.2 million and segment operating profit margin decreased 1.0 percentage points. The increase in segment operating profit was attributable to contributions from the Ecofys acquisition and lower incentive-based compensation offset by lower organic RBR and higher severance expense. Severance expense was \$1.0 million and \$0.5 million for the years ended December 31, 2017 and 2016, respectively.

Financial Services Advisory and Compliance

	For the year ended			2018 over	2017 over
	December 31,			2017	2016
	2018	2017	2016	Increase	Increase
				(Decrease)	(Decrease)
				Percentage	Percentage
Revenues before reimbursements (in 000s)	\$ 144,060	\$ 126,343	\$ 137,375	14.0	(8.0)

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Total revenues (in 000s)	\$ 157,498	\$ 145,126	\$ 158,110	8.5	(8.2	)		
Segment operating profit (in 000s)	\$ 49,458	\$ 50,219	\$ 60,050	(1.5	)	(16.4	)	
Key segment operating metrics:								
Segment operating profit margin	34.3	%	39.7	%	43.7	% (13.6	) (9.2	)
Average FTE - Consulting	298		270		267	10.4	1.1	
Average FTE - Technology, Data & Process	152		94		-	61.7	100.0	
Average utilization rates based on 1,850 hours	76	%	79	%	80	% (3.8	) (1.3	)
Average bill rate	\$ 289		\$ 294		\$ 300	(1.7	) (2.0	)

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

Year ended December 31, 2018 compared to the year ended December 31, 2017

RBR for this segment increased 14.0% for the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase in RBR was primarily due to increased demand for financial crime, sanctions and operational efficiency engagements with our larger financial services clients, as well as the addition of a new managed services engagement.

Average FTE – Consulting increased 10.4% for the year ended December 31, 2018 compared to the year ended December 31, 2017 due to hiring to meet increased demand and to expand certain capabilities particularly related to technology expertise. Average FTE – Technology, Data & Process increased 61.7% for the year ended December 31, 2018 compared to the year ended December 31, 2017 due to hiring for a new managed services engagement to outsource a client's anti-money laundering and transaction monitoring capabilities. Utilization decreased 3.8% for the year ended December 31, 2018 compared to the year ended December 31, 2017 due to recent hiring to meet future demand. Average bill rate decreased 1.7% to \$289.

For the year ended December 31, 2018 compared to the year ended December 31, 2017, segment operating profit decreased \$0.8 million driven by higher wages and benefits relating to the additional FTE costs mentioned above and costs of additional temporary project-based resources not included in the FTE metric. Segment operating profit margin decreased 5.4 percentage points as costs mentioned above outpaced RBR growth.

Year ended December 31, 2017 compared to the year ended December 31, 2016

RBR for this segment decreased 8.0% for the year ended December 31, 2017 compared to the year ended December 31, 2016, due to the conclusion of certain engagements as well as fewer compliance and controls engagements from financial institutions.

Average FTE – Consulting was relatively flat for the year ended December 31, 2017 compared to the year ended December 31, 2016. Average FTE – Technology, Data & Process increased 100% for the year ended December 31, 2017 compared to the year ended December 31, 2016, due to a transfer of personnel from the Healthcare segment. Utilization decreased to 79% for the year ended December 31, 2017 compared to 80% for the year ended December 31, 2016. Average bill rate decreased 2.0% to \$294, mainly due to a change in project mix.

For the year ended December 31, 2017 compared to the year ended December 31, 2016, segment operating profit and segment operating profit margin decreased \$9.8 million and 4.0 percentage points, respectively. The decreases were driven by lower RBR, higher compensation and benefits expense due to annual wage increases, partially offset by lower incentive-based compensation. In addition to fewer engagements for the year ended December 31, 2017, certain new engagements were less profitable than similar engagements for the year ended December 31, 2016 due to competitive pricing on flexible resources.

### Unaudited Quarterly Results

The following table sets forth certain unaudited quarterly financial information. The unaudited quarterly financial information was prepared on the same basis as the audited consolidated financial statements contained elsewhere in



this report. The data includes all normal recurring adjustments necessary for the fair presentation of the information for the periods presented, when read in conjunction with our consolidated financial statements and related notes thereto. Results for any quarter are not necessarily indicative of results for the full year or for any future quarter.

During the year ended December 31, 2018, we sold our Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within our Financial Services Advisory and Compliance segment and, as such, the results from its operations have been reclassified to discontinued operations to reflect this transaction for all periods presented. Further information on this transaction is presented in Note 3 – Dispositions and Discontinued Operations to the notes to our consolidated financial statements. During the three months ended September 30, 2018, we commenced operation of our joint venture Health Systems Solutions (“HSS”), with Baptist Health South Florida. We have a 60% financial and controlling interest in HSS and as such we fully consolidate its operations. As a result, beginning in the quarter ended September 30, 2018, there will be income attributable to non-controlling interests, net of tax in our consolidated statements of comprehensive income.

During the fourth quarter 2017, we recognized a \$29.8 million net tax benefit as a result of Tax Reform, which was signed into law December 22, 2017. Of this benefit, \$18.6 million was recognized in continuing operations. Further information on the tax impacts of Tax Reform is presented in Note 16 – Income Taxes to the notes to our consolidated financial statements.

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The amounts in the following table are in thousands, except for per share data:

	Dec. 31, 2018	Sep. 30, 2018	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sep. 30, 2017	June 30, 2017	Mar. 31, 2017
Revenues before reimbursements	\$ 174,639	\$ 171,386	\$ 165,224	\$ 161,445	\$ 156,635	\$ 164,523	\$ 160,076	\$ 155,708
Reimbursements	18,576	16,232	19,489	16,623	20,398	20,989	17,594	18,143
Total revenues	193,215	187,618	184,713	178,068	177,033	185,512	177,670	173,851
Cost of services before reimbursable expenses	127,570	121,945	113,121	116,936	109,009	111,197	113,333	109,884
Reimbursable expenses	18,576	16,232	19,489	16,623	20,398	20,989	17,594	18,143
Total cost of services	146,146	138,177	132,610	133,559	129,407	132,186	130,927	128,027
General and administrative expenses	34,507	32,073	34,912	37,079	32,663	35,326	34,663	36,372
Depreciation expense	5,074	5,026	4,943	4,997	4,806	4,777	5,530	5,285
Amortization expense	1,476	1,568	1,665	1,752	2,156	2,102	2,108	2,208
Other operating costs (benefit)	51	(201 )	2,295	983	280	1,014	-	1,306
Operating income (loss)	5,961	10,975	8,288	(302 )	7,721	10,107	4,442	653
Interest expense	300	669	911	828	758	833	783	648
Interest income	(1,095 )	(697 )	(77 )	(119 )	(109 )	(100 )	(80 )	(31 )
Other (income) expense, net	(449 )	390	(183 )	361	411	103	599	(218 )
Income (loss) from continuing operations before income tax expense	7,205	10,613	7,637	(1,372 )	6,661	9,271	3,140	254
Income tax expense (benefit)	3,381	3,785	1,509	225	(15,704 )	3,430	577	(334 )
Net income (loss) from continuing operations	3,824	6,828	6,128	(1,597 )	22,365	5,841	2,563	588
Income from discontinued operations, net of tax	2,413	67,287	22,698	13,450	20,754	6,098	6,234	10,509
Net income	6,237	74,115	28,826	11,853	43,119	11,939	8,797	11,097

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Less: Income attributable to non-controlling interest, net of tax	(319 )	(70 )	-	-	-	-	-	-
Net income attributable to Navigant Consulting, Inc.	\$ 5,918	\$ 74,045	\$ 28,826	\$ 11,853	\$ 43,119	\$ 11,939	\$ 8,797	\$ 11,097

Basic net income per share								
Net income from continuing operations attributable to Navigant Consulting, Inc.	\$ 0.08	\$ 0.15	\$ 0.14	\$ (0.04 )	\$ 0.49	\$ 0.13	\$ 0.05	\$ 0.01
Income from discontinued operations, net of tax	0.06	1.51	0.50	0.30	0.45	0.13	0.13	0.22
Net income attributable to Navigant Consulting, Inc. (1)	\$ 0.14	\$ 1.66	\$ 0.64	\$ 0.26	\$ 0.94	\$ 0.26	\$ 0.19	\$ 0.24
Shares used in computing basic per share data	42,442	44,645	45,106	45,120	45,708	46,619	47,113	46,932

Diluted net income per share								
Net income from continuing operations attributable to Navigant Consulting, Inc.	\$ 0.08	\$ 0.15	\$ 0.13	\$ (0.04 )	\$ 0.47	\$ 0.12	\$ 0.05	\$ 0.01
Income from discontinued operations, net of tax	0.06	1.46	0.49	0.30	0.44	0.13	0.13	0.21
Net income attributable to Navigant Consulting, Inc. (1)	\$ 0.14	\$ 1.61	\$ 0.62	\$ 0.26	\$ 0.91	\$ 0.25	\$ 0.18	\$ 0.23
Shares used in computing diluted per share	43,594	45,932	46,549	45,120	47,223	48,017	48,696	48,969

data

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

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Operating results fluctuate from quarter to quarter as a result of a number of factors, including the significance of client engagements commenced and completed during a quarter, timing of acquisitions, the number of business days in a quarter, employee hiring and utilization rates. The timing of revenues varies from quarter to quarter due to various factors, including the ability of clients to terminate engagements without penalty, attaining certain contractual outcomes, the size and scope of assignments, and general economic conditions. Because a significant percentage of our expenses are relatively fixed, a variation in the number of client assignments, or the timing of the initiation or the completion of client assignments, can cause significant variations in operating results from quarter to quarter. Operating results are also impacted by other operating costs (benefit) which reflects, among other things, earn-out adjustments, asset impairments, office consolidation costs and restructuring costs. In addition, interest expense and interest income fluctuate from quarter to quarter as a result of balance changes in cash and debt. Other (income) expense will fluctuate from quarter to quarter due to the impact of foreign currency translations for transactions recorded in non-functional currencies.

### Liquidity and Capital Resources

Our cash flow activities were as follows (in thousands) for the years ended December 31,

	2018	2017	2016
Net cash provided by operating activities	\$37,589	\$102,535	\$109,384
Net cash provided by (used in) investing activities	\$410,536	\$(44,462)	\$(51,526)
Net cash used in financing activities	\$(249,026)	\$(58,698)	\$(58,155)

As a result of the disposition of SaleCo that was completed on August 24, 2018, we realized \$426.1 million of proceeds, net of cash transferred and transaction costs which excluded approximately \$49.6 million in cash taxes to be paid. During the year ended December 31, 2018, we paid off our debt, paid a dividend and increased our share repurchase activity. Cash and cash equivalents as of December 31, 2018, were \$206.9 million, which we expect to use for additional share repurchases, dividends and investments in our key growth markets. See Note 3 – Dispositions and Discontinued Operations and Note 13 – Bank Debt to the notes to our financial statements.

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

We calculate accounts receivable days sales outstanding ("DSO") by dividing the accounts receivable balance, net of reserves and deferred revenue credits, at the end of the quarter, by daily revenues. Daily revenues are calculated by taking quarterly revenue divided by 90 days, approximately equal to the number of days in a quarter. DSO for the Company's continuing operations was 70 days at December 31, 2018, compared to 73 days at December 31, 2017. The decrease in DSO reflects improved collections. DSO for the Company's continuing operations remained consistent at 73 days at December 31, 2017 and 2016.

### Operating Activities

Net cash provided by operating activities was \$37.6 million for the year ended December 31, 2018 compared to \$102.5 million and \$109.4 million in 2017 and 2016, respectively. The decrease was mainly due to lower net income adjusted for non-cash items due, in part, to twelve months of operating results from SaleCo included in 2017 compared to only eight months in 2018. The decrease in cash provided by operating activities for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to lower operating income

partially offset by lower investment in working capital.

#### Investing Activities

Net cash provided by investing activities was \$410.5 million for the year ended December 31, 2018 compared to cash used in investing activities of \$44.5 million and \$51.5 million for the years ended December 31, 2017 and 2016, respectively. The increase mainly related to the proceeds received from the SaleCo transaction of \$426.1 million, net of cash transferred and transaction costs, with additional cash provided by a reduced level of capital expenditures in 2018 compared to 2017 and no cash expenditures for acquisitions made in 2018. The decrease in cash used in investing activities for the year ended December 31, 2017 compared to December 31, 2016 was primarily due to lower acquisition related payments for the year ended December 31, 2017 (see Note 3 — Dispositions and Discontinued Operations to the notes to our consolidated financial statements), partially offset by an increase in capital expenditures related to the build-out of our new corporate headquarters in Chicago during the year ended December 31, 2017 and technology spending.

## Financing Activities

Net cash used in financing activities was \$249.0 million for the year ended December 31, 2018 compared to \$58.7 million and \$58.2 million for the years ended December 31, 2017 and 2016, respectively. The primary drivers of the increased use of cash related to the net repayment of debt from the SaleCo transaction proceeds of \$131.8 million as well as increased repurchases of its common stock in 2018 of \$69.5 million in excess of the \$43.0 million repurchased during the year ended December 31, 2017 as well as payment of a dividend in 2018, with no dividends paid in 2017. The cash used in financing activities during the year ended December 31, 2017 compared to the year ended December 31, 2016 increased mainly due to a higher volume of share repurchases and higher contingent acquisition liability payments, partially offset by lower repayment of debt during 2017.

During the year ended December 31, 2018, we purchased 4,952,505 shares of our common stock in the open market for \$112.5 million compared to 2,322,415 shares of our common stock in the open market for \$43.0 million and 1,436,147 shares for \$25.1 million during the years ended December 31, 2017 and 2016, respectively.

## Debt, Commitments and Capital

For further information regarding our debt, see Note 13 – Bank Debt to the notes to our consolidated financial statements.

At December 31, 2018, we had total contractual obligations of \$138.2 million. The following table shows the components of our significant contractual commitments at December 31, 2018 by the scheduled years of payments (in thousands):

Contractual Obligations	Total	2019	2020 to 2021	2022 to 2023	Thereafter
Deferred acquisition liabilities (a)	\$1,679	\$969	\$710	\$-	\$-
Lease commitments - operating	136,518	27,496	46,325	27,620	35,077
Total contractual obligations	\$138,197	\$28,465	\$47,035	\$27,620	\$35,077

a) At December 31, 2018, we had \$1.7 million in liabilities relating to deferred acquisition liability obligations which were recorded at estimated fair value and discounted to present value. Settlement of certain of the liabilities is contingent upon acquired businesses meeting performance targets. Assuming each of these acquisitions reaches their maximum target, our maximum deferred contingent acquisition liability would have been \$1.8 million at December 31, 2018.

On May 7, 2018, our board increased the share purchase authorization to a total of \$175.0 million through December 31, 2020. See Part II, Item 5 – Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this report for additional information on the share repurchases.

As further discussed in Note 16 – Income Taxes to the notes to our consolidated financial statements, on December 22, 2017, Tax Reform became law. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Tax Reform permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018. Tax Reform may impact future cash flows as a result of the change in corporate tax rate and the impact it may have on cash paid taxes.

During the year ended December 31, 2018, we retired 9,500,000 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.

During the year ended December 31, 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.

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

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported therein. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### Revenue Recognition

On January 1, 2018, we adopted Topic 606 and all related amendments (“the new revenue standard”) for all contracts with customers not completed as of the adoption date using the cumulative catch-up transition (modified retrospective) method. Results as of January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. As a result of the adoption, we recorded a net increase to opening retained earnings of \$0.2 million, net of tax, with the impact primarily relating to certain contracts that include event-based variable consideration. Previously, we recognized event-based variable fees when contractual milestones or obligations were met, however, Topic 606 requires us to estimate and recognize the revenue from certain event-based variable fees over the period of performance to the extent that it is probable that a significant reversal will not occur.

### Effect of the Adoption of Topic 606

For the year ended December 31, 2018, we recorded \$1.2 million in additional revenue related to estimated variable consideration, which would not have been recognized under the prior revenue recognition guidance and have been included in accounts receivable, net and contract assets. Prior year results are presented in accordance with historical accounting. See our 2017 Form 10-K for our historical accounting policy.

### Revenue Recognition

We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods and services.

The majority of our revenues are generated from providing professional services under the following types of arrangements: time and material, fixed-fee, units of production and event or performance-based.

For our time and material arrangements, the amounts charged correspond directly to the value our clients receive. These arrangements qualify for the right to invoice practical expedient which allows revenue to be recognized based on the number of hours worked by our Client-Service FTE (as defined below) at the contracted bill rates. In some cases, our time and material engagements are subject to a maximum fee amount not to be exceeded, in which case we periodically evaluate the progress of work performed to ensure that the maximum amount billable to the client is not expected to be exceeded. Similarly, our units of production arrangements where the fee is unit/output priced at a per unit value qualifies for the right to invoice practical expedient. As such, revenue for units of production is recognized based on measures such as the number of items processed at agreed-upon rates. When such fees do not qualify for the right to invoice practical expedient or are not attributable to the services delivered in a specific time period, the variable fees are estimated and recognized ratably over the term of the arrangement.

With our fixed-fee arrangements, we are contracted to complete a pre-determined set of professional services for a pre-determined fee (transaction price). However, the fee and engagement scope can be adjusted based on a mutual agreement between us and the client. In many cases, the recording of fixed revenue amounts requires us to make an estimate of the total amount of work to be performed, and revenues are then recognized as efforts are expended based on hours worked unless another recognition method such as output or straight-line is more representative of value transferred to the client.

We also have certain arrangements in which the fees are dependent on the completion of contractually defined outcomes. In many cases, this fee is earned in addition to an hourly or fixed-fee. These fees are rewarded when certain contractual milestones or outcomes are met. Contractually defined outcomes may be event-based or performance-based (for example based on obtaining a key performance indicator). For certain of these arrangements, the variable consideration is estimated at the expected value and subject to constraint based on risks specific to the contract. The estimate is evaluated in each reporting period and included in the total transaction price to the extent it is probable that a significant reversal of revenue will not occur. Transaction price is then recognized into revenue based upon efforts expended based on hours worked unless another method is more representative of revenue earned. In some cases, the estimation of the variable fees is complex and subject to many variables and may require significant judgement.

The majority of our contracts have a single performance obligation. However, when certain arrangements have more than one performance obligation that are distinct from one another, the transaction price is allocated to the separate performance obligations based on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing or margins. Generally, we consider each of consulting/advisory services, transaction advisory services or software-based fees as one distinct performance obligation.

Reimbursable expenses for our engagements include travel, out-of-pocket and independent contractor costs. Such expenses are passed through to clients as contractually allowed. Reimbursable expenses are considered a variable portion of the transaction price and are recognized into revenue consistent with the measure of progress of the respective performance obligation.

#### Contract Assets and Liabilities

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

We define contract liabilities as advance payments from, or billings to, our customers for services that have not yet been performed or earned and retainers. These liabilities are recorded within other current liabilities and are recognized as services are provided. Any taxes assessed on revenues relating to services provided to our clients are recorded on a net basis. As of December 31, 2018 and 2017, our contract liabilities were \$28.9 million and \$21.6 million, respectively. During the year ended December 31, 2018, \$21.0 million was recognized into revenue from the opening balance.

#### Performance Obligations

For disclosure purposes, we apply the practical expedient to exclude the value of unsatisfied performance obligations for contracts with an enforceable duration of one year or less. We also apply the practical expedient to exclude those amounts for contracts in which we apply the right to invoice. The majority of our contracts include termination for convenience clauses which generally require 30 days' notice with no penalty. The notice period required determines the contract duration resulting in very few agreements which are contractually enforceable beyond one year. As of December 31, 2018, we had approximately \$170.9 million of remaining performance obligations of which approximately \$82.4 million are expected to be satisfied beyond one year. These obligations mainly relate to our newly formed joint venture, HSS.

#### Business Combinations

We recognize and measure identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree as of the acquisition date at fair value. Fair value measurements require extensive use of estimates and assumptions, including estimates of future cash flows to be generated by the acquired assets. In addition, we recognize and measure contingent consideration at fair value as of the acquisition date. Contingent consideration obligations that are classified as liabilities are remeasured at fair value each reporting period with the changes in fair value resulting from either the passage of time, revised expectations of performance, or ultimate settlement to the amount or timing of the initial measurement recognized in the consolidated statements of comprehensive income.

#### Goodwill and Intangible Assets

Goodwill represents the difference between the purchase price of the acquired business and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. Intangible assets consist of identifiable intangibles other than goodwill. Identifiable intangible assets other than goodwill include customer lists and relationships, employee non-compete agreements, backlog revenue and trade names. These assets are subject to changes in events or circumstances that could impact their carrying value.

Goodwill is tested for impairment annually during the second quarter. In addition to our annual goodwill test, on a periodic basis, we are required to consider whether it is more likely than not that the fair value has fallen below the carrying amount of an asset, thus requiring us to perform an interim goodwill impairment test. We consider elements and other factors including, but not limited to:

- adverse changes in the business climate in which we operate;
- attrition of key personnel;
- unanticipated competition;
- our market capitalization in comparison to our book value;
- our recent operating performance; and/or
- our financial projections.

The goodwill impairment test is performed at a reporting unit level. A reporting unit, as defined by Accounting Standards Codification 350 (“ASC 350”), is an operating segment of a business or one level below if discrete financial information is available and regularly reviewed by segment management. At December 31, 2018, we had three operating segments which are also considered to be our reporting units, as follows: Healthcare, Energy, and Financial Services Advisory and Compliance.

Financial Accounting Standards Board Accounting Standards Update (“ASU”) No. 2011-08, “Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment” (“ASU Topic 350”) requires an entity to perform an annual assessment to determine whether goodwill is impaired. We performed a quantitative impairment test that compares the fair value of the reporting unit to its carrying value. The fair value is determined using a discounted cash flow analysis (“income approach”) and a comparable company analysis (“market approach”).

We determine the fair value of a reporting unit by using an equal weighting of estimated fair value using the income and market approaches. The income approach uses estimated future cash flows and terminal values. Assumptions used to determine future cash flows include: forecasted growth rates; profit margins; longer-term historical performance and cost of capital. Our assumptions are consistent with our internal projections and operating plans. Our internal projections and operating plans and thus our estimated fair value may be impacted by the overall economic environment. Our assumptions may change as a result of, among other things: changes in our estimated business future growth rate; profit margin; long-term outlook; market valuations of comparable companies; the ability to retain key personnel; changes in operating segments; competitive environment and weighted average cost of capital. Under the market approach for determining fair value, we adopt certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation. Inputs to the valuation can be readily observable, market-corroborated or unobservable. Wherever possible, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs; however, due to the use of our own assumptions about the inputs in measuring fair value, our goodwill impairment testing also makes use of significant unobservable inputs. The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other things.

If the carrying value exceeds the fair value, an impairment charge is recorded to reduce the carrying value to the implied fair value.

Intangible assets with definite lives are amortized based on the estimated period of consumption. Changes in these estimations may result in additional or accelerated amortization expense. We review these assets for impairment whenever events or changes in circumstances indicate an asset’s carrying value may not be recoverable.

Further information regarding our goodwill balances and current year impairment testing and review can be found in Note 6 — Goodwill and Intangible Assets, Net to the notes to our consolidated financial statements.

Income Taxes

Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes to be paid. We are subject to income taxes in the U.S. and a number of foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense.

Deferred income tax assets and liabilities are recorded for future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations.

On December 22, 2017, the President of the United States signed into law Tax Reform. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Tax Reform permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018.

#### Recent Accounting Pronouncements

See Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements to the notes to our consolidated financial statements for further information on our accounting policies and recent accounting pronouncements.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our primary exposure to market risk relates to changes in foreign currencies. The foreign currency risk is associated with our operations in foreign countries.

At December 31, 2018, 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 December 31, 2018, we had net assets of approximately \$15.3 million with a functional currency of the Canadian Dollar, \$11.5 million with a functional currency of the Euro and \$0.6 million with a functional currency of the U.K. Pound Sterling related to our non-U.S. operations. At December 31, 2018, we had net assets denominated in non-functional currencies of approximately \$5.4 million. As such, a ten percent change in the value of the local currencies would have resulted in a \$0.5 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 8. Financial Statements and Supplementary Data.

Our consolidated financial statements are in this report as pages F-3 through F-35. An index to such information appears on page F-1.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

#### Item 9A. Controls and Procedures.

##### (1) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (“Exchange Act”)) that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time frames specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Any system of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

An evaluation of the effectiveness of the design and operation of the disclosure controls and procedures, as of the end of the period covered by this report, was made under the supervision and with the participation of our management

including our principal executive officer and principal financial officer. Based upon this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective.



(2) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting at December 31, 2018 based on the framework published by the Committee of Sponsoring Organizations of the Treadway Commission, Internal Control —Integrated Framework (2013). In the course of its evaluation, management concluded that we maintained effective control over financial reporting at December 31, 2018.

KPMG LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this report, has issued a report on our internal control over financial reporting. See "Report of Independent Registered Public Accounting Firm" on page F-2.

(3) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the fourth quarter of 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Navigant Consulting, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Navigant Consulting, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and financial statement schedule as listed in the accompanying index (collectively, the consolidated financial statements), and our report dated February 28, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance

with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(signed) KPMG LLP

Chicago, Illinois

February 28, 2019

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Certain information required by this Item will be included under the headings “Election of Directors,” “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the definitive proxy statement for our annual meeting of shareholders (“2019 Proxy Statement”) and is incorporated herein by reference.

See “Executive Officers of the Registrant” in Part I of this report for information regarding our executive officers.

Item 11. Executive Compensation.

The information under the headings “Compensation Discussion and Analysis,” “Compensation Committee Report,” “Executive Compensation,” “Director Compensation” and “Compensation Committee Interlocks and Insider Participation” in the 2019 Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Certain information required by this Item will be included under the headings “Stock Ownership of Directors, Executive Officers and Principal Holders” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the 2019 Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information under the headings “Corporate Governance” and “Certain Relationships and Related Party Transactions” in the 2019 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information under the heading “Independent Registered Public Accounting Firm” in the 2019 Proxy Statement is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

(a) The consolidated financial statements and financial statement schedule filed as part of this report are listed in the accompanying Index to the Consolidated Financial Statements.

(b) The exhibits filed as part of this report are listed below:

Exhibits:

Exhibit

No. Description

- 2.1 Agreement and Plan of Merger, dated as of May 14, 2014, among Navigant Consulting, Inc., Bobcat Acquisition Corporation, Cymetrix Corporation and certain securityholders of Cymetrix Corporation (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on May 16, 2014). (Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the SEC upon request.)
- 2.2 Letter Agreement, dated May 22, 2014, by and between Navigant Consulting, Inc. and Michael Halberda, as Securityholder Representative, for and on behalf of each of the former securityholders of Cymetrix Corporation (Securityholders), pursuant to Section 9.23 of the Agreement and Plan of Merger, dated as of May 14, 2014, among Navigant Consulting, Inc., Bobcat Acquisition Corporation, Cymetrix Corporation and the Securityholders (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015).
- 2.3 Amendment, dated as of May 15, 2015, by and between Navigant Consulting, Inc. and Michael Halberda, as Securityholder Representative (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on May 20, 2015).
- 2.4 Equity Purchase Agreement, dated as of June 23, 2018, by and between Navigant Consulting, Inc. and Ankura Consulting Group, LLC (incorporated by reference to Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on June 28, 2018). (Pursuant to Item 601(b)(2) of Regulation S-K, certain exhibits, schedules and similar attachments have been omitted; exhibits, schedules and other attachments will be provided to the Securities and Exchange Commission upon request).
- 2.5 Amendment No. 1 to Equity Purchase Agreement, dated as of August 22, 2018, by and among Navigant Consulting, Inc., Ankura Consulting Group, LLC and Ankura Consulting Worldwide, Inc. (incorporated by reference to Exhibit 2.2 to our Current Report on Form 8-K filed with the SEC on August 30, 2018).
- 2.6 Amendment No. 2 to Equity Purchase Agreement, dated as of August 23, 2018, by and among Navigant Consulting, Inc., Ankura Consulting Group, LLC, and Ankura Consulting Worldwide, Inc. (incorporated by reference to Exhibit 2.3 to our Current Report on Form 8-K filed with the SEC on August 30, 2018). (Pursuant to Item 601(b)(2) of Regulation S-K, certain exhibits, schedules and similar attachments have been omitted; exhibits, schedules and other attachments will be provided to the Securities and Exchange Commission upon request).
- 3.1 Restated Certificate of Incorporation of Navigant Consulting, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on May 23, 2012).

- 3.2 Amendment to Restated Certificate of Incorporation of Navigant Consulting, Inc. (incorporated by reference to Exhibit 3.1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014).
- 3.3 Amended and Restated By-Laws of Navigant Consulting, Inc. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on December 26, 2017).
- 10.4† Navigant Consulting, Inc. 2017 Long-Term Incentive Plan (incorporated by reference to Appendix A to our Definitive Proxy Statement filed with the SEC on April 10, 2017).
- 10.5† Navigant Consulting, Inc. Amended and Restated 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on May 20, 2015).
- 10.6† Navigant Consulting, Inc. Annual Incentive Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on May 23, 2012).
- 10.7† Navigant Consulting, Inc. Annual Incentive Plan (incorporated by reference to Appendix B to our Definitive Proxy Statement filed with the SEC on April 10, 2017).

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Exhibit

No.	Description
10.9†	<u>Form of Non-Employee Director Stock Option Award Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2012).</u>
10.10†	<u>Form of Executive Officer Stock Option Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013).</u>
10.11†	<u>Form of Non-Employee Director Restricted Stock Unit Award Agreement (Settlement Upon Vesting) (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014).</u>
10.12†	<u>Form of Non-Employee Director Restricted Stock Unit Award Agreement (Settlement Upon Separation From Service) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014).</u>
10.13†	<u>Form of Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014).</u>
10.14†	<u>Form of Executive Officer Stock Option Award Agreement (2012 Long-Term Incentive Plan – Retirement Vesting) (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014).</u>
10.15†	<u>Form of Performance-Based Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan) (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014).</u>
10.16†	<u>Form of Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan – revised March 2016) (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016).</u>
10.17†	<u>Form of Performance-Based Restricted Stock Unit Award Agreement (2012 Long-Term Incentive Plan – revised March 2016) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016).</u>
10.18†	<u>Form of Stock Option Award Agreement (2012 Long-Term Incentive Plan – revised March 2016) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016).</u>
10.19†	<u>Form of Restricted Stock Unit Award Agreement (Mr. Lieberman Initial Grant) (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 4, 2016).</u>
10.20†	<u>Navigant Consulting, Inc. Directors’ Deferred Fees Plan (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on March 15, 2007).</u>

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- 10.21† Amendment Number One to the Navigant Consulting, Inc. Directors' Deferred Fees Plan (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on December 24, 2008).
- 10.22† Amended and Restated Employment Agreement, effective as of March 1, 2012, between Navigant Consulting, Inc. and Julie M. Howard (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on February 28, 2012).
- 10.23† Amended and Restated Employment Agreement, effective as of October 1, 2013, between Navigant Consulting, Inc. and Monica M. Weed (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on October 4, 2013).
- 10.24† Letter Agreement, effective as of March 30, 2017, between Navigant Consulting, Inc. and Monica M. Weed (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed with the SEC on May 4, 2017).
- 10.26† Offer Letter dated February 19, 2016 between Navigant Consulting, Inc. and Stephen Lieberman (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on April 4, 2016).
- 10.27† Offer Letter dated March 28, 2016 between Navigant Consulting, Inc. and Lee A. Spirer (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016).
- 10.28† Letter Agreement, effective as of March 30, 2017, between Navigant Consulting, Inc. and Lee A. Spirer (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 26, 2017).
- 10.29 Credit Agreement, dated as of March 28, 2017, among Navigant Consulting, Inc., the other Borrowers party thereto, the Guarantors party thereto, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent. (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on March 31, 2017.)



Exhibit

No.	Description
10.30	<u>Consent Letter Agreement, dated June 22, 2018, to Credit Agreement, dated as of March 28, 2017, by and among the Navigant, NCE, certain other subsidiaries of Navigant, Bank of America, N.A., as administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 28, 2018).</u>
10.31†	<u>Form of Restricted Stock Award Agreement (2017 Long-Term Incentive Plan – transaction bonus awards).</u>
21.1	<u>Subsidiaries of Navigant Consulting, Inc.</u>
23.1	<u>Consent of Independent Registered Public Accounting Firm.</u>
31.1	<u>Certification of Chief Executive Officer required by Rule 13a-14(a) of the Exchange Act.</u>
31.2	<u>Certification of Chief Financial Officer required by Rule 13a-14(a) of the Exchange Act.</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code.</u>
101	Interactive Data File.

†Indicates a management contract or compensatory plan or arrangement.

Item 16. Form 10-K Summary

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ JULIE M. HOWARD

Julie M. Howard

Chairman and Chief Executive Officer

Date: February 28, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

Signature	Title	Date
/s/ JULIE M. HOWARD	Chairman and Chief Executive Officer and	February 28, 2019
Julie M. Howard	Director (Principal Executive Officer)	
/s/ STEPHEN R. LIEBERMAN	Executive Vice President and Chief Financial	February 28, 2019
Stephen R. Lieberman	Officer (Principal Financial Officer)	
/s/ GILLIAN M. FORSYTH	Chief Accounting Officer	February 28, 2019
Gillian M. Forsyth	(Principal Accounting Officer)	
/s/ KEVIN M. BLAKELY	Director	February 28, 2019
Kevin M. Blakely		
/s/ CYNTHIA A. GLASSMAN	Director	February 28, 2019
Hon. Cynthia A. Glassman		
/s/ STEPHAN A. JAMES	Director	February 28, 2019
Stephan A. James		
/s/ JEFFREY YINGLING	Director	February 28, 2019
Jeffrey Yingling		

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/s/ RUDINA SESERI Director February 28, 2019

Rudina Seseri

/s/ MICHAEL L. TIPSORD Director February 28, 2019

Michael L. Tipsord

/s/ KATHLEEN E. WALSH Director February 28, 2019

Kathleen E. Walsh

/s/ RANDY H. ZWIRN Director February 28, 2019

Randy H. Zwirn

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

Navigant Consulting, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Navigant Consulting, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2018, and the related notes and financial statement schedule as listed in the accompanying index (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 4 to the financial statements, the Company has changed its method of accounting for revenue recognition in 2018 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

(signed) KPMG LLP

We have served as the Company's auditor since 1996.

Chicago, Illinois

February 28, 2019

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## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 206,920	\$ 8,449
Accounts receivable, net and contract assets	179,923	165,838
Prepaid expenses and other current assets	22,512	21,006
Assets held for sale	-	361,030
Total current assets	409,355	556,323
Non-current assets:		
Property and equipment, net	63,025	71,432
Intangible assets, net	14,166	20,172
Goodwill	422,357	422,959
Other assets	8,644	9,378
Total assets	\$ 917,547	\$ 1,080,264
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 13,302	\$ 8,404
Accrued liabilities	15,558	9,734
Accrued compensation-related costs	69,555	58,515
Income tax payable	13,357	3,199
Other current liabilities	34,044	30,550
Liabilities held for sale	-	86,384
Total current liabilities	145,816	196,786
Non-current liabilities:		
Deferred income tax liabilities	33,901	36,598
Other non-current liabilities	25,277	26,602
Bank debt non-current	-	132,944
Total non-current liabilities	59,178	196,144
Total liabilities	204,994	392,930
Stockholders' equity:		
Common stock, \$0.001 par value per share; 150,000 shares authorized; 49,387 and 58,047 shares issued as of December 31, 2018 and 2017, respectively	49	58
Additional paid-in capital	664,473	659,825
Treasury stock, 8,114 and 12,661 shares as of December 31, 2018 and 2017, respectively	(160,972)	(224,366 )
Retained earnings	211,543	270,995
Accumulated other comprehensive loss	(6,529 )	(19,178 )
Total Navigant Consulting, Inc. stockholders' equity	708,564	687,334
Non-controlling interest	3,989	-
Total stockholders' equity	712,553	687,334
Total liabilities and stockholders' equity	\$ 917,547	\$ 1,080,264

See accompanying notes to consolidated financial statements.

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## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	For the year ended December 31,		
	2018	2017	2016
Revenues before reimbursements	\$ 672,694	\$ 636,942	\$ 619,787
Reimbursements	70,920	77,124	76,281
Total revenues	743,614	714,066	696,068
Cost of services before reimbursable expenses	479,572	443,423	417,058
Reimbursable expenses	70,920	77,124	76,281
Total cost of services	550,492	520,547	493,339
General and administrative expenses	138,571	139,024	137,693
Depreciation expense	20,040	20,398	19,631
Amortization expense	6,461	8,574	10,711
Other operating costs	3,128	2,600	1,872
Operating income	24,922	22,923	32,822
Interest expense	2,708	3,022	3,181
Interest income	(1,988 )	(320 )	(140 )
Other expense (benefit), net	119	895	(1,754 )
Income from continuing operations before income tax expense	24,083	19,326	31,535
Income tax expense (benefit)	8,900	(12,031 )	13,237
Net income from continuing operations	15,183	31,357	18,298
Income from discontinued operations, net of tax	105,848	43,595	39,800
Net income	121,031	74,952	58,098
Less: Income attributable to non-controlling interest, net of tax	(389 )	-	-
Net income attributable to Navigant Consulting, Inc.	\$ 120,642	\$ 74,952	\$ 58,098
Basic net income per share			
Net income from continuing operations attributable to Navigant Consulting, Inc.	\$ 0.33	\$ 0.67	\$ 0.39
Income from discontinued operations, net of tax	2.39	0.94	0.84
Net income attributable to Navigant Consulting, Inc. (1)	\$ 2.72	\$ 1.61	\$ 1.23
Shares used in computing basic per share data	44,328	46,593	47,343
Diluted net income per share			
Net income from continuing operations attributable to Navigant Consulting, Inc.	\$ 0.32	\$ 0.65	\$ 0.37
Income from discontinued operations, net of tax	2.31	0.90	0.82
Net income attributable to Navigant Consulting, Inc. (1)	\$ 2.64	\$ 1.55	\$ 1.19
Shares used in computing diluted per share data	45,727	48,226	48,813
Net income	\$ 121,031	\$ 74,952	\$ 58,098
Other comprehensive income (loss), net of tax:			
Unrealized net gain (loss), foreign currency translation	(3,898 )	5,858	(8,720 )
Realized net loss on disposition, foreign currency translation	16,677	-	-
Unrealized net gain (loss) on interest rate derivatives	548	100	(72 )
Realized net gain on termination of derivatives	(452 )	-	-
Reclassification adjustment on interest rate derivatives included in	(226 )	70	146

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interest expense and income tax expense			
Other comprehensive income (loss), net of tax	12,649	6,028	(8,646 )
Total comprehensive income, net of tax	133,680	80,980	49,452
Income attributable to non-controlling interest, net of tax	(389 )	-	-
Total comprehensive income attributable to Navigant Consulting, Inc., net of tax	\$ 133,291	\$ 80,980	\$ 49,452

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

See accompanying notes to consolidated financial statements.

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## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)

	Navigant Consulting, Inc. Shareholders					Accumulated		Non-Controlling	Total
	Common Stock Shares	Treasury Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Treasury Stock Cost	Other Comprehensive Income (Loss)	Retained Earnings		
Balance at December 31, 2015	64,465	(16,903)	\$ 64	\$ 627,976	\$(296,624)	\$(16,560 )	\$ 278,682	\$ -	\$ 593,538
Comprehensive income (loss)	-	-	-	-	-	(8,646 )	58,098	-	49,452
Issuances of common stock	290	-	-	4,299	-	-	-	-	4,299
Tax benefits on stock options exercised and restricted stock units vested	-	-	-	1,218	-	-	-	-	1,218
Vesting of restricted stock units, net of forfeitures and tax withholdings	570	-	1	(3,983 )	-	-	-	-	(3,982 )
Share-based compensation expense	-	-	-	13,071	-	-	-	-	13,071
Additional paid-in capital recorded through compensation expense	-	-	-	1,938	-	-	-	-	1,938
Repurchases of common stock	-	(1,436 )	-	-	(25,057 )	-	-	-	(25,057 )
Treasury stock retirement	(8,000 )	8,000	(8 )	-	140,320	-	(140,312)	-	-
Balance at December 31, 2016	57,325	(10,339)	\$ 57	\$ 644,519	\$(181,361)	\$(25,206 )	\$ 196,468	\$ -	\$ 634,477
Cumulative-effect adjustment resulting from the adoption of ASU 2016-09 (Note 2)	-	-	-	719	-	-	(425 )	-	294

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Comprehensive income	-	-	-	-	-	6,028	74,952	-	80,980
Issuances of common stock	254	-	1	3,918	-	-	-	-	3,919
Vesting of restricted stock units, net of forfeitures and tax withholdings	468	-	-	(4,915 )	-	-	-	-	(4,915 )
Share-based compensation expense	-	-	-	13,037	-	-	-	-	13,037
Additional paid-in capital recorded through compensation expense	-	-	-	2,547	-	-	-	-	2,547
Repurchases of common stock	-	(2,322 )	-	-	(43,005 )	-	-	-	(43,005 )
Balance at December 31, 2017	58,047	(12,661)	\$ 58	\$ 659,825	\$(224,366)	\$(19,178 )	\$ 270,995	\$ -	\$ 687,334
Cumulative-effect adjustment resulting from the adoption of ASU 2014-09 (Note 2)	-	-	-	-	-	-	151	-	151
Comprehensive income	-	-	-	-	-	12,649	120,642	389	133,680
Dividends paid	-	-	-	-	-	-	(4,315 )	-	(4,315 )
Non-controlling interest initial investment	-	-	-	-	-	-	-	3,600	3,600
Issuances of common stock	234	-	-	3,550	-	-	-	-	3,550
Vesting of restricted stock units, net of forfeitures and tax withholdings	606	-	1	(5,484 )	-	-	-	-	(5,483 )
Share-based compensation expense	-	-	-	6,582	-	-	-	-	6,582
Treasury stock retirement	(9,500 )	9,500	(10 )	-	175,940	-	(175,930)	-	-
Repurchases of common stock	-	(4,953 )	-	-	(112,546)	-	-	-	(112,546 )
Balance at December 31, 2018	49,387	(8,114 )	\$ 49	\$ 664,473	\$(160,972)	\$(6,529 )	\$ 211,543	\$ 3,989	\$ 712,553

See accompanying notes to consolidated financial statements

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## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the year ended December 31,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net income	\$ 121,031	\$ 74,952	\$ 58,098
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation expense	23,815	28,826	27,742
Amortization expense	6,672	8,960	11,507
Share-based compensation expense	6,582	13,037	13,071
Deferred income taxes	(27,706 )	(16,463 )	(2,154 )
Allowance for doubtful accounts receivable	8,742	7,755	8,815
Payments of contingent acquisition liabilities in excess of initial fair value	(1,186 )	(1,700 )	(643 )
Contingent acquisition liability adjustments, net	-	2,213	1,330
Gain on disposition	(84,436 )	-	-
Other, net	996	3,113	(159 )
<b>Changes in assets and liabilities (net of dispositions):</b>			
Accounts receivable, net and contract assets	(34,464 )	(11,773 )	(49,972 )
Prepaid expenses and other assets	3,806	(6,712 )	4,189
Accounts payable	1,436	1,058	1,630
Accrued liabilities	(86 )	1,158	874
Accrued compensation-related costs	1,938	(10,589 )	14,447
Income taxes payable	8,457	3,248	5,773
Other liabilities	1,992	5,452	14,836
Net cash provided by operating activities	37,589	102,535	109,384
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(15,543 )	(38,650 )	(28,665 )
Acquisitions of businesses, net of cash acquired	-	(5,000 )	(15,426 )
Other acquisition payments	-	-	(5,500 )
Proceeds from dispositions, net of selling costs and cash	426,079	-	-
Payments of acquisition liabilities	-	-	(1,165 )
Other, net	-	(812 )	(770 )
Net cash provided by (used in) investing activities	410,536	(44,462 )	(51,526 )
<b>Cash flows from financing activities:</b>			
Issuances of common stock	3,550	3,919	4,299
Repurchases of common stock	(112,546)	(43,005 )	(25,057 )
Dividend payments	(4,315 )	-	-
Payments of contingent acquisition liabilities	(2,170 )	(8,630 )	(185 )
Repayments to banks	(453,064)	(457,200)	(410,197)
Borrowings from banks	321,231	452,524	375,708
Payments of debt issuance costs	(451 )	(1,297 )	-
Non-controlling interest	3,600	-	-
Other, net	(4,861 )	(5,009 )	(2,723 )

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Net cash used in financing activities	(249,026)	(58,698 )	(58,155 )
Effect of exchange rate changes on cash and cash equivalents	(628 )	783	(307 )
Net increase (decrease) in cash and cash equivalents	198,471	158	(604 )
Cash and cash equivalents at beginning of the period	8,449	8,291	8,895
Cash and cash equivalents at end of the period	\$ 206,920	\$ 8,449	\$ 8,291

Supplemental Consolidated Cash Flow Information

	For the year ended December 31,		
	2018	2017	2016
Interest paid	\$ 3,877	\$ 4,237	\$ 3,692
Income taxes paid, net of refunds	\$ 53,438	\$ 15,553	\$ 22,752
Impact of Tax Cuts and Jobs Act on deferred income tax balances	\$ -	\$ 29,800	\$ -

See accompanying notes to consolidated financial statements.

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NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

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

On August 24, 2018, we completed the sale of our former Disputes, Forensics and Legal Technology segment and the transaction advisory services practice within our Financial Services Advisory and Compliance segment (collectively, “SaleCo”) to Ankura Consulting Group, LLC (“Ankura”). The sale represented a strategic shift in our services and, as such, the results from operations of SaleCo have been classified as “discontinued operations” for all periods presented. All other operations are considered “continuing operations” and are presented in our three remaining segments. In addition, the assets and liabilities of SaleCo prior to the sale have been classified as assets held for sale and liabilities held for sale (see Note 3 –Dispositions and Discontinued Operations).

During the year ended December 31, 2018, we commenced operation of our joint venture Health Systems Solutions (“HSS”) with Baptist Health South Florida. We have a 60% financial and controlling interest in HSS and as such we fully consolidate its operations. As a result, from and after December 31, 2018, there will be Non-controlling interest included as a component of Stockholders’ equity. The operating agreements executed by the HSS shareholders require that the non-controlling interest holder approve the declaration and payment of any dividends by HSS.

We do not believe that any material subsequent events occurred through February 28, 2019 that requires disclosure in the notes to the consolidated financial statements.

We are headquartered in Chicago, Illinois and have offices in various cities within the U.S., as well as offices in countries in Europe, the Middle East, and Asia. Our non-U.S. subsidiaries, in the aggregate, represented approximately 8%, 7% and 3% of our total revenues for the years ended December 31, 2018, 2017 and 2016, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

Principles of Consolidation

The consolidated financial statements include our accounts and those of our subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. Actual results could differ from those estimates and may affect future results of operations and cash flows. Examples include: determination of the allowance for doubtful accounts, accruals for incentive compensation, the fair value of deferred contingent acquisition liabilities, revenue-related percentage of completion estimates, the measurement of deferred tax assets, estimating future performance for recording expense associated with our performance based long-term incentive plan, and the assessment of



recoverability of intangible assets and goodwill. We base our estimates on historical trends, current experience and other assumptions that we believe are reasonable.

#### Cash and Cash Equivalents

Cash equivalents are comprised of liquid instruments with original maturity dates of 90 days or less.

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### Fair Value of Financial Instruments

We consider the recorded value of our financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, net and accounts payable and contract assets, to approximate the fair value of the respective assets and liabilities at December 31, 2018 and 2017 based upon the short-term nature of the assets and liabilities. During the year ended December 31, 2017, the fair value of our bank debt considered counterparty and our own credit risk, and it approximated carrying value as it bore interest at variable rates. We maintained interest rate derivatives which were recorded at fair value. During the year ended December 31, 2018, all of the Company's outstanding interest rate derivatives were settled before their original expiration dates, as the related underlying debt outstanding was repaid from the proceeds of the SaleCo transaction. (See Note 17 — Fair Value).

### Accounts Receivable Realization

We maintain allowances for doubtful accounts for estimated losses resulting from our clients' inability to make required cash payments of amounts due to us or for disputes that affect our ability to fully collect our billed accounts receivable or for potential fee reductions negotiated by clients. Our estimation is based on historical collection and our review and assessment of our clients' likelihood to make required cash payments of amounts due to us. Estimated losses may vary from actual results. If our clients' financial condition were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. If the billed amounts become uncollectable or collectability is doubtful, an allowance is recorded to general and administrative expense. If the collectability of unbilled amounts is not assured or certain pricing adjustments are made, an allowance is recorded as a reduction to revenue.

### Property and Equipment, Net

We record property and equipment at cost. We compute depreciation using the straight-line method based on the estimated useful lives of the assets, ranging from three to seven years for software, furniture, fixtures and equipment. We compute amortization of leasehold improvements over the shorter of the remaining lease term or the estimated useful life of the asset. The lease terms of our leaseholds expire at various dates through 2030.

### Operating Leases

We lease office space under operating leases. Some of the lease agreements contain one or more of the following provisions or clauses: tenant allowances, rent holidays, lease premiums, and rent escalation clauses. For the purpose of recognizing these provisions on a straight-line basis over the terms of the leases, we use the date of initial possession to begin amortization, which is generally when we enter the space and begin to make improvements in preparation of intended use.

For tenant allowances and rent holidays, we record a deferred rent liability and amortize the deferred rent over the terms of the leases as reductions to rent expense. For scheduled rent escalation clauses during the lease term or for rental payments commencing at a date other than the date of initial occupancy, we record minimum rental expenses on a straight-line basis over the terms of the leases.

In addition, some of our operating leases contain exit clauses, which include termination fees associated with exiting a lease prior to the expiration of the lease term. We record termination obligations when we give notice to the landlord that we have elected to exercise the early termination clause of such agreement.

### Notes Receivable, Prepaid Sign-on and Retention Bonuses

We grant and pay sign-on and retention bonuses to attract and retain certain senior-level consultants and administrative personnel. Generally, we require grantees to sign incentive recovery agreements, which obligate the

grantees to fulfill a service term, typically between one to five years. If such service term is not fulfilled, the monetary equivalent of the uncompleted service term is required to be paid back to us. We record paid sign-on and retention bonuses to current and non-current other assets and the bonuses are amortized as compensation expense over the service period as defined by the incentive recovery agreements.

We also issue notes receivable in the form of unsecured employee loans with terms that are generally three to five years. These loans are issued to recruit and retain certain senior-level consultants. The principal amount and accrued interest are either paid by the consultant or forgiven by us over the terms of the loans, so long as the consultant continues employment and complies with certain contractual requirements. The expense associated with the forgiveness of the principal amount of the loans and accrued interest is recorded as compensation expense over the service period, which is consistent with the term of the loans. The accrued interest is calculated based on the loan's effective interest rate and is recorded as interest income.

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The collectability of the unsecured employee loans is reviewed on a quarterly basis based on our assessment of the employee's ability to repay the loan should the contractual requirements of the loan not be fulfilled.

### Goodwill and Intangible Assets

Goodwill represents the difference between the purchase price of the acquired business and the related fair value of the net assets acquired, which is accounted for by the acquisition method of accounting. Intangible assets consist of identifiable intangibles other than goodwill. Identifiable intangible assets, other than goodwill, include customer lists and relationships, employee non-compete agreements, backlog revenue and trade names. These assets are subject to changes in events or circumstances that could impact their carrying value.

Goodwill is tested for impairment annually during the second quarter. In addition to our annual goodwill test, on a periodic basis, we are required to consider whether it is more likely than not that the fair value has fallen below the carrying amount of an asset and thus requiring us to perform an interim goodwill impairment test. We consider elements and other factors including, but not limited to:

- adverse changes in the business climate in which we operate;
- attrition of key personnel;
- unanticipated competition;
- our market capitalization in comparison to our book value;
- our recent operating performance; and/or
- our financial projections.

The goodwill impairment test is performed at a reporting unit level. A reporting unit, as defined by ASC Topic 350, is an operating segment of a business or one level below an operating segment if discrete financial information is available and regularly reviewed by segment management. At December 31, 2018, we had three operating segments which were also considered to be our reporting units, as follows: Healthcare; Energy; and Financial Services Advisory and Compliance.

ASC Topic 350 requires an entity to perform an annual assessment to determine whether goodwill is impaired. We performed a quantitative impairment test that compares the fair value of the reporting unit to its carrying value. The fair value is determined using a discounted cash flow analysis (income approach) and a comparable company analysis (market approach).

We determine the fair value of a reporting unit by using an equal weighting of estimated fair value using the income and market approaches. The income approach uses estimated future cash flows and terminal values. Assumptions used to determine future cash flows include: forecasted growth rates; profit margins; longer-term historical performance and cost of capital. Our assumptions are consistent with our internal projections and operating plans. Our internal projections and operating plans and thus our estimated fair value may be impacted by the overall economic environment. Our assumptions may change as a result of, among other things: changes in our estimated business future growth rate; profit margin; long-term outlook; market valuations of comparable companies; the ability to retain key personnel; changes in operating segments; competitive environment and weighted average cost of capital. Under the market approach for determining fair value, we adopt certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk or the risks inherent in the inputs to the valuation. Inputs to the valuation can be readily observable, market-corroborated or unobservable. Wherever possible, we use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs; however, due to the use of our own assumptions about the inputs in measuring fair value, our goodwill impairment testing also makes use of significant unobservable inputs. The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other things.

If the carrying value exceeds the fair value, an impairment charge is recorded to reduce the carrying value to the implied fair value.

Intangible assets with definite lives are amortized based on the estimated period of consumption. We review these assets for impairment whenever events or changes in circumstances indicate an asset's carrying value may not be recoverable.

Further information regarding our goodwill balances and current year impairment testing and review can be found in Note 6 — Goodwill and Intangible Assets, Net.

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## Revenue Recognition

On January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers (“Topic 606”) and all the related amendments (“the new revenue standard”) for all contracts with customers not completed as of the adoption date using the cumulative catch-up transition (modified retrospective) method. Results as of January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. As a result of the adoption, we recorded a net increase to opening retained earnings of \$0.2 million, net of tax, with the impact primarily relating to certain contracts that include event-based variable consideration. Previously, we recognized event-based variable fees when contractual milestones or obligations were met, however, Topic 606 requires us to estimate and recognize the revenue from certain event-based variable fees over the period of performance to the extent that it is probable that a significant reversal will not occur. Further information regarding our revenue recognition policy, including our full accounting policy description, can be found in Note 4 – Revenue Recognition.

## Legal

We record legal expenses as incurred. Potential exposures related to unfavorable outcomes of legal matters are accrued for when they become probable and reasonably estimable.

## Share-Based Compensation

We recognize the cost resulting from all share-based compensation arrangements, including stock options, restricted stock awards and restricted stock units that we grant under our long-term incentive plans in our consolidated financial statements based on their grant date fair value. The expense is recognized over the requisite service period or performance period of the award. Awards with a graded vesting period based on service are expensed on a straight-line basis for the entire award. Awards with performance-based vesting conditions which require the achievement of a specific company financial performance goal at the end of the performance period and required service period are recognized over the performance period. Each reporting period, we reassess the probability of achieving the respective performance goal. If the goals are not expected to be met, no compensation cost is recognized, and any previously recognized amount recorded is reversed. If the award contains market-based vesting conditions, the compensation cost is based on the grant date fair value and expected achievement of market condition and is not subsequently reversed if it is later determined that the condition is not likely to be met or is expected to be lower than initial expectations.

The grant date fair value of stock options is based on the Black-Scholes-Merton pricing model. The Black-Scholes-Merton option-pricing model requires judgmental assumptions including volatility and expected term, both based on historical experience. The risk-free interest rate is based on U.S. Treasury interest rates whose term is consistent with the expected term of the option.

The grant date fair value of restricted stock and restricted stock units is based on the closing price of the underlying stock on the date of the grant.

At the time of the grant, we make an estimation of expected forfeitures based upon past experience. Compensation expense is recorded only for those awards expected to vest. Our forfeiture rate is reviewed periodically and may change from year to year.

## Income Taxes

We account for income taxes in accordance with FASB Accounting Standards Codification (“ASC”) Topic 740, Income Taxes. Our income tax expense, deferred tax assets and liabilities, and reserves for unrecognized tax benefits reflect management’s best assessment of estimated tax obligations. We are subject to income taxes in the U.S. and a number

of foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense. On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (“Tax Reform”). We previously made provisional estimates for the impact of the Jobs Act as of and for the year ended December 31, 2017 related to the re-measurement of deferred income taxes, valuation allowances, uncertain tax positions, and our assessment of permanently reinvested earnings. As of December 31, 2018, we have completed our accounting and measurement analyses related to the income tax effects of the Jobs Act and no significant adjustments to the provisional amounts were recorded during the year ended December 31, 2018. Further information on the tax impacts of Tax Reform is included in Note 16 – Income Taxes to the notes to our consolidated financial statements.

Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. When appropriate, we evaluate the need for a valuation allowance to reduce deferred tax assets. The evaluation of the need for a valuation allowance requires management judgment and could impact our financial results and effective tax rate. We record interest and penalties as a component of our income tax provision. Such amounts were not material during any of the years ended December 31, 2018, 2017 or 2016.

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### Treasury Stock

We account for treasury stock transactions at cost and for the reissuance of treasury stock using the average cost method.

### Foreign Currency Transactions

Assets and liabilities of our foreign subsidiaries whose functional currency is not the U.S. Dollar (“USD”) are translated into USD using the exchange rates in effect at period end. Revenue and expense items are translated using the average exchange rates for the period. These currency translation adjustments are reflected within stockholders’ equity as a component of accumulated other comprehensive loss.

Our foreign subsidiaries have various assets and liabilities, primarily receivables and payables, which are denominated in currencies other than their functional currency. These balance sheet items are subject to re-measurement, the impact of which is recorded in other income, net in the consolidated statements of comprehensive income (loss). We recognized a \$0.3 million loss and a \$1.4 million loss for the years ended December 31, 2018 and 2017, respectively, and \$1.7 million of gains for the year ended December 31, 2016.

### Interest Rate Derivatives

From time to time we maintain interest rate swaps that are designated as cash flow hedges to manage the market risk from changes in interest rates on a portion of our variable rate loans. We recognize derivative instruments which are cash flow hedges as assets or liabilities at fair value, with the related gain or loss reflected within stockholders’ equity as a component of accumulated other comprehensive loss. Such instruments are recorded at fair value at each reporting date on a recurring basis. Changes in fair value as calculated are recorded in other comprehensive income (loss) (see Note 12 — Derivatives and Hedging Activity) only to the extent of effectiveness. Any ineffectiveness on the instruments would be recognized in the consolidated statements of comprehensive income (loss). The differentials to be received or paid under the instruments are recognized in earnings over the life of the contract as adjustments to interest expense. During the years ended December 31, 2018, 2017 and 2016, we recorded no gain or loss due to ineffectiveness.

All of our derivative instruments are transacted under International Swaps and Derivatives Association (ISDA) master agreements. These agreements permit the net settlement of amounts owed in the event of default and certain other termination events, and it is our policy to net all derivative assets and liabilities on the consolidated balance sheets.

### Accounting for Business Combinations

We use the acquisition method of accounting under the authoritative guidance on business combinations. Each acquired company’s operating results are included in our consolidated financial statements starting on the date of acquisition. The purchase price is equivalent to the fair value of consideration transferred. Tangible and identifiable intangible assets acquired, and liabilities assumed as of the date of acquisition are recorded at fair value as of the acquisition date. Goodwill is recognized for the excess of purchase price over the net fair value of assets acquired and liabilities assumed. Deferred contingent consideration, which is primarily based on the business achieving certain performance targets, is recognized at its fair value on the acquisition date, and changes in fair value are recognized in earnings until settled. For the years ended December 31, 2018, 2017 and 2016, we recorded (benefits) costs of (\$1.0 million), \$2.2 million and \$1.3 million, respectively, in other operating costs (benefit) for these fair value adjustments. The fair value of the contingent consideration is based on our estimations of future performance of the business and is determined based on Level 3 observable inputs. Further information regarding our contingent acquisition liability balances can be found in Note 17 — Fair Value.

### Impairment of Long-Lived Assets



We review long-lived assets such as property and equipment and definite-lived intangible assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These events or changes in circumstances may include a significant deterioration of operating results, changes in business plans such as a disposition, or changes in anticipated future cash flows. If an impairment indicator is present, we evaluate recoverability of assets to be held and used by a comparison of the carrying value of the assets to future undiscounted net cash flows expected to be generated by the assets. We group assets at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset group, we estimate the fair value of the asset group to determine whether an impairment loss should be recognized. An impairment loss is recognized for the difference between the fair value and carrying value of the asset group.

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## Comprehensive Income

Comprehensive income consists of net income (loss), unrealized foreign currency translation adjustments and unrealized net loss and/or gain on interest rate derivatives.

## Discontinued Operations

The results of operations for business components meeting the criteria for discontinued operations are presented as such in our consolidated statements of comprehensive income (loss). For periods prior to the designation as discontinued operations, we reclassify the results of operations to discontinued operations. In addition, the net gain or loss (including any impairment loss) on the disposal is presented as discontinued operations when recognized. The assets and liabilities for business components meeting the criteria for discontinued operations are reclassified and presented as assets held for sale and liabilities relating to assets held for sale in the audited consolidated balance sheet as of December 31, 2017. The change in presentation for discontinued operations does not have any impact on our financial condition or results of operations. We combine the cash flows and assets and liabilities attributable to discontinued operations with the respective cash flows and assets and liabilities from continuing operations.

## Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted Topic 606. For updates to our revenue recognition policy see Note 4 – Revenue Recognition.

On January 1, 2018, we adopted ASU 2016-15, Statement of Cash Flow (Topic 230). This update is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The update 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. We determined that the manner in which we classify our contingent acquisition liability payments in the consolidated statement of cash flows will change. Based on our evaluation, adoption of this standard requires a 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 for periods beginning on or after January 1, 2018. Under this guidance, portions of these payments have been reclassified from financing activities to operating activities. We applied this change retrospectively, and it did not have a material impact on our consolidated financial statements.

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

On January 1, 2017, we adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. As required by the standard, excess tax benefits and deficiencies recognized on share-based compensation expense are recorded in the consolidated statement of comprehensive income as a component of income tax expense. Previously, these amounts were recorded as a component of additional paid-in capital on the consolidated balance sheet. We elected to apply the change in presentation to the consolidated statement of cash flows prospectively to classify excess tax benefits as an operating activity rather than a financing activity. Upon adoption, we determined that we did not have previously unrecognized excess tax benefits to be recognized on a modified retrospective transition method as an adjustment to retained earnings. We will continue to classify cash paid related to shares withheld to satisfy tax-withholding requirements as a financing activity, as required by the standard. We made

a policy election to account for forfeitures as they occur, rather than estimating the expected forfeitures over the course of the vesting period. The cumulative-effect adjustment to retained earnings as of the date of adoption was \$0.4 million, with a reduction in the related deferred tax liability of \$0.3 million. ASU 2016-09 also requires that excess tax benefits and deficiencies be prospectively excluded from assumed future proceeds in the calculation of diluted weighted average shares when calculating diluted earnings per share utilizing the treasury stock method. We applied this change prospectively, and it did not have a material impact on our consolidated financial statements.

During the first quarter of 2017, we early adopted the FASB ASU 2017-04, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment (Topic 350), which simplifies the goodwill impairment test by eliminating step 2, which is the step requiring companies to perform a hypothetical purchase price allocation to measure goodwill. Instead, under the new standard, impairment will be measured using the difference between the fair value of a reporting unit with its carrying amount. Any impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value, taking into consideration income tax effects from any deductible goodwill on the carrying amount of the reporting unit. This standard was applied prospectively. The adoption did not have a material effect on our consolidated financial statements or related disclosures.

During the third quarter of 2017, we early adopted the FASB ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities and applied the standard prospectively. This update eliminates the requirement to separately measure and report hedge ineffectiveness and requires that all items that affect earnings be presented in the same income statement line as the hedged item. The update also provides alternatives for applying hedge accounting to additional hedging strategies and measuring the hedged item in fair value hedges of interest rate risk. The updated presentation and disclosure guidance were applied prospectively. The adoption did not have a material impact on our consolidated financial statements or related disclosures.

On January 1, 2016, we adopted the FASB ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30). 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. 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 December 31, 2018 and 2017 was \$ 1.5 million and \$1.6 million, respectively.

On January 1, 2016, we adopted the FASB 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 after this date.

#### Recent Accounting Pronouncements Not Yet Adopted

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. The standard, as amended, will require a modified retrospective approach either for leases existing at or entered into after the beginning of the earliest comparative period presented (comparative method), or for all leases existing as of the effective date of adoption (effective date method). We expect to apply the effective date method and are currently evaluating the potential impact of our adoption of this guidance on our consolidated financial statements. Due to the number of office leases we are party to, the related obligation and right-of-use asset is expected to be material to our consolidated balance sheets.

### 3. DISPOSITIONS AND DISCONTINUED OPERATIONS

On August 24, 2018, we completed the disposition of SaleCo to Ankura for total proceeds of \$462.8 million net of working capital adjustments. The operations of SaleCo have been presented in accordance with ASC Topic 205 "Discontinued Operations" for all periods presented. All other operations are considered "continuing operations" and have been presented in three segments. See Note 5 – Segment Information. During the year ended December 31, 2018, the assets and liabilities of SaleCo were reclassified as assets held for sale and liabilities relating to assets held for sale in the consolidated balance sheet as of December 31, 2017.

The gain on sale for the year ended December 31, 2018 was calculated as follows (in thousands):

	December 31, 2018
Proceeds from disposition, net of cash	\$ 462,810
Current assets	121,301
Non-current assets	239,335
Current liabilities	(33,809 )
Non-current liabilities	(4,573 )
Net assets and liabilities related to SaleCo	322,254
Transaction costs	38,371
Foreign currency translation	17,749
Gain on disposition	\$ 84,436

During the fourth quarter of 2018, we finalized the accounting for the disposition of SaleCo and recorded adjustments to the gain on disposition, which mainly related to a leasehold improvement that was transferred, along with the related income tax effects. These adjustments resulted in a reduction of the pre-tax gain on disposition by \$2.7 million.

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

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

	For the year ended		
	December 31,		
	2018	2017	2016
Revenues before reimbursements	\$ 214,936	\$ 302,697	\$ 318,959
Total revenues	\$ 225,340	\$ 318,261	\$ 338,412
Cost of services including reimbursable expenses	\$ 150,917	\$ 226,727	\$ 234,330
General and administrative expenses	\$ 21,050	\$ 27,898	\$ 31,261
Amortization and depreciation expense	\$ 3,986	\$ 8,814	\$ 8,907
Interest expense	\$ 1,488	\$ 1,948	\$ 2,054
Gain on disposition	\$ 84,436	\$ -	\$ -
Other income (expense), net	\$ (58 )	\$ (1,619 )	\$ 16
Income from discontinued operations before income tax expense	\$ 132,277	\$ 51,255	\$ 61,876
Income tax expense from discontinued operations	\$ 26,429	\$ 7,660	\$ 22,076
Income from discontinued operations, net of tax	\$ 105,848	\$ 43,595	\$ 39,800

Current year results from operations are for the period through August 24, 2018 (the date of the sale of SaleCo) while the prior year includes results for the full period presented. The effective tax rate for the year ended December 31, 2018 of 20.0% was favorably impacted by a tax election that allowed the Company to utilize a stepped up basis for certain European assets upon the SaleCo transaction’s closing.

During the year ended December 31, 2018, in conjunction with the SaleCo transaction, we recognized \$26.4 million of income tax expense.

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

	December 31, 2017
Current assets held for sale	
Accounts receivable, net and contract assets	\$ 102,003
Prepaid expenses and other current assets	11,915
Property and equipment, net	17,737
Intangible assets, net	881
Goodwill	214,328
Other assets	14,166
Total assets held for sale	\$ 361,030
Current liabilities held for sale	
Accounts payable	\$ 3,994
Accrued liabilities	4,160
Accrued compensation-related costs	38,258
Income taxes payable	1,521
Other current liabilities	8,346
Other non-current liabilities	5,572
Long-term deferred tax liability	24,533
Total liabilities held for sale	\$ 86,384

Capital expenditures for the year ended December 31, 2018 totaled \$0.4 million. During the year ended December 31, 2017, capital expenditures totaled \$9.2 million.

#### 4. REVENUE RECOGNITION

##### Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted Topic 606 and all related amendments (“the new revenue standard”) for all contracts with customers not completed as of the adoption date using the cumulative catch-up transition (modified retrospective) method. Results as of January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. As a result of the adoption, we recorded a net increase to opening retained earnings of \$0.2 million, net of tax, with the impact primarily relating to certain contracts that include event-based variable consideration. Previously, we recognized event-based variable fees when contractual milestones or obligations were met, however, Topic 606 requires us to estimate and recognize the revenue from certain event-based variable fees over the period of performance to the extent that it is probable that a significant reversal will not occur.

##### Effect of the Adoption of Topic 606

During the year ended December 31, 2018, we recorded \$1.2 million in additional revenue related to estimated variable consideration, which would not have been recognized under the prior revenue recognition guidance and have been included in accounts receivable, net and contract assets. Prior year results are presented in accordance with historical accounting. See our 2017 Form 10-K for our historical accounting policy.

Significant Accounting Policy

We recognize revenues when we transfer control of promised goods or services to our customers in an amount that reflects the consideration to which we expect to be entitled to in exchange for those goods and services.

The majority of our revenues are generated from providing professional services under the following types of arrangements: time and material, fixed-fee, units of production and event or performance-based.

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For our time and material arrangements, the amounts charged correspond directly to the value our clients receive. These arrangements qualify for the right to invoice practical expedient which allows revenue to be recognized based on the number of hours worked by our Client-Service FTE (as defined below) at the contracted bill rates. In some cases, our time and material engagements are subject to a maximum fee amount not to be exceeded, in which case we periodically evaluate the progress of work performed to ensure that the maximum amount billable to the client is not expected to be exceeded. Similarly, our units of production arrangements where the fee is unit/output priced at a per unit value qualifies for the right to invoice practical expedient. As such, revenue for units of production is recognized based on measures such as the number of items processed at agreed-upon rates. When such fees do not qualify for the right to invoice practical expedient or are not attributable to the services delivered in a specific time period, the variable fees are estimated and recognized ratably over the term of the arrangement.

With our fixed-fee arrangements, we are contracted to complete a pre-determined set of professional services for a pre-determined fee (transaction price). However, the fee and engagement scope can be adjusted based on a mutual agreement between us and the client. In many cases, the recording of fixed revenue amounts requires us to make an estimate of the total amount of work to be performed, and revenues are then recognized as efforts are expended based on hours worked unless another recognition method such as output or straight-line is more representative of value transferred to the client.

We also have certain arrangements in which the fees are dependent on the completion of contractually defined outcomes. In many cases, this fee is earned in addition to an hourly or fixed-fee. These fees are rewarded when certain contractual milestones or outcomes are met. Contractually defined outcomes may be event-based or performance-based (for example based on obtaining a key performance indicator). For certain of these arrangements, the variable consideration is estimated at the expected value and subject to constraint based on risks specific to the contract. The estimate is evaluated in each reporting period and included in the total transaction price to the extent it is probable that a significant reversal of revenue will not occur. Transaction price is then recognized into revenue based upon efforts expended based on hours worked unless another method is more representative of revenue earned. In some cases, the estimation of the variable fees is complex and subject to many variables and may require significant judgement.

The majority of our contracts have a single performance obligation. However, when certain arrangements have more than one performance obligation that are distinct from one another, the transaction price is allocated to the separate performance obligations based on a relative standalone selling price basis. We determine the standalone selling prices based on our overall pricing or margins. Generally, we consider each of consulting/advisory services, transaction advisory services or software-based fees as one distinct performance obligation.

Reimbursable expenses for our engagements include travel, out-of-pocket and independent contractor costs. Such expenses are passed through to clients as contractually allowed. Reimbursable expenses are considered a variable portion of the transaction price and are recognized into revenue consistent with the measure of progress of the respective performance obligation.

#### Contract Assets and Liabilities

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

We define contract liabilities as advance payments from, or billings to, our customers for services that have not yet been performed or earned and retainers. These liabilities are recorded within other current liabilities and are recognized as services are provided. Any taxes assessed on revenues relating to services provided to our clients are recorded on a net basis. As of December 31, 2018, and December 31, 2017, our contract liabilities were \$28.9 million

and \$21.6 million, respectively. During the year ended December 31, 2018, \$21.0 million was recognized into revenue from the opening balance.

#### Performance Obligations

For disclosure purposes, we apply the practical expedient to exclude the value of unsatisfied performance obligations for contracts with an enforceable duration of one year or less. We also apply the practical expedient to exclude those amounts for contracts in which we apply the right to invoice. The majority of our contracts include termination for convenience clauses which generally require 30 days' notice with no penalty. The notice period required determines the contract duration resulting in very few agreements which are contractually enforceable beyond one year. As of December 31, 2018, we had approximately \$170.9 million of remaining performance obligations of which approximately \$82.4 million are expected to be satisfied beyond one year. These obligations mainly relate to our newly formed joint venture, HSS.

## 5. SEGMENT INFORMATION

During the year ended December 31, 2018, we completed the sale of SaleCo (See Note 3 — Dispositions and Discontinued Operations). All period operations of SaleCo are classified as discontinued operations. As a result, we have eliminated the former Disputes, Forensics and Legal Technology segment from our segment results reporting and disposed of a portion of our Financial Services Advisory and Compliance segment. The segment information below is presented on a continuing operations basis. See Note 3 — Dispositions and Discontinued Operations for further information. Also, during the year ended December 31, 2018, we moved our life sciences regulatory and compliance related business from the former Disputes, Forensics and Legal Technology reporting segment into the Healthcare reporting segment. The change better aligns this business with our life sciences team as part of the Healthcare segment, as they have comparable client types and address similar business issues and industry dynamics. Prior year results have been adjusted to conform to current year presentation. Our business is assessed, and resources are allocated, based on the following three reportable segments:

•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, the implementation of a new electronic health records system and product planning and commercialization expertise.

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

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

The following information includes segment revenues before reimbursements, segment total revenues and segment operating profit. Certain unallocated expense amounts related to specific reporting segments have been excluded from segment operating profit to be consistent with the information used by management to evaluate segment performance. Segment operating profit represents total revenues less cost of services excluding long-term compensation expense attributable to client-service employees. Long-term compensation expense attributable to client-service employees includes share-based compensation expense and compensation expense attributed to certain retention incentives (see Note 9 — Share-Based Compensation Expense and Note 10 — Supplemental Consolidated Balance Sheet Information).

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

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

	For the year ended		
	December 31,		
	2018	2017	2016
<b>Revenues before reimbursements:</b>			
Healthcare	\$ 389,111	\$ 386,107	\$ 366,472
Energy	139,523	124,492	115,940
Financial Services Advisory and Compliance	144,060	126,343	137,375
<b>Total revenues before reimbursements</b>	<b>\$ 672,694</b>	<b>\$ 636,942</b>	<b>\$ 619,787</b>
<b>Total revenues:</b>			
Healthcare	\$ 421,352	\$ 422,515	\$ 404,346
Energy	164,764	146,425	133,612
Financial Services Advisory and Compliance	157,498	145,126	158,110
<b>Total revenues</b>	<b>\$ 743,614</b>	<b>\$ 714,066</b>	<b>\$ 696,068</b>
<b>Segment operating profit:</b>			
Healthcare	\$ 104,928	\$ 116,369	\$ 118,468
Energy	44,321	33,783	32,637
Financial Services Advisory and Compliance	49,458	50,219	60,050
<b>Total segment operating profit</b>	<b>198,707</b>	<b>200,371</b>	<b>211,155</b>
<b>Segment reconciliation to income before income tax expense:</b>			
<b>Reconciling items:</b>			
General and administrative expenses	138,571	139,024	137,693
Depreciation expense	20,040	20,398	19,631
Amortization expense	6,461	8,574	10,711
Other operating costs, net	3,128	2,600	1,872
Long-term compensation expense attributable to client-service employees (including share-based compensation expense)	5,585	6,852	8,426
<b>Operating income</b>	<b>24,922</b>	<b>22,923</b>	<b>32,822</b>
Interest and other expense, net	839	3,597	1,287
<b>Income from continuing operations before income tax expense</b>	<b>\$ 24,083</b>	<b>\$ 19,326</b>	<b>\$ 31,535</b>

Total assets allocated by segment include accounts receivable, net, certain retention-related prepaid assets, intangible assets and goodwill. The remaining assets are unallocated. As of December 31, 2017, unallocated assets included assets held for sale of \$361.0 million, related to assets previously allocated to SaleCo (see Note 3 – Dispositions and Discontinued Operations). Allocated assets by segment were as follows (in thousands):

December 31, 2018	December 31, 2017
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Healthcare	\$405,283	\$419,559
Energy	130,052	115,478
Financial Services Advisory and Compliance	85,250	85,524
Unallocated assets	296,962	459,703
Total assets	\$917,547	\$1,080,264

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## Geographic data

Total revenues and assets by geographic region were as follows (shown in thousands):

	For the year ended December 31,		
	2018	2017	2016
Total revenue:			
United States	\$680,668	\$666,356	\$672,644
International	62,946	47,710	23,424
Total	\$743,614	\$714,066	\$696,068

	December 31, 2018	December 31, 2017
Total assets:		
United States	\$858,991	\$966,547
International	58,556	113,717
Total	\$917,547	\$1,080,264

## 6. GOODWILL AND INTANGIBLE ASSETS, NET

As part of our divestiture of SaleCo, the entire former Disputes, Forensics and Legal Technology segment was sold. The disposed book value of goodwill was \$212.3 million, which includes \$5.7 million related to the transaction advisory services practice, formerly in the Financial Services Advisory and Compliance segment that we also sold (see Note 3 – Dispositions and Discontinued Operations). In addition, in the first quarter of 2018, we moved our life sciences regulatory and compliance related business from the former Disputes, Forensics and Legal Technology segment into our Healthcare segment. Changes made to our goodwill balances during the years ended December 31, 2018 and 2017 were as follows (in thousands):

	Healthcare	Energy	Financial Services Advisory and Compliance	Total Company
Goodwill at December 31, 2017	\$278,130	\$80,109	\$54,462	\$412,701
Transfer from the former Disputes, Forensics and Legal Technology segment	15,934	-	-	15,934
Dispositions	-	-	(5,676)	(5,676)
Goodwill at December 31, 2017 adjusted	\$294,064	\$80,109	\$48,786	\$422,959
Adjustments	365	200	(24)	541
Foreign currency translation	(146)	(275)	(722)	(1,143)
Net goodwill at December 31, 2018	\$294,283	\$80,034	\$48,040	\$422,357

	Healthcare	Energy	Financial Services Advisory and Compliance	Total Company
Goodwill at December 31, 2016	\$ 272,032	\$ 77,924	\$ 53,784	\$ 403,740
Transfer from the former Disputes, Forensics and Legal Technology segment	15,934	-	-	15,934
Dispositions	-	-	(5,676 )	(5,676 )
Goodwill at December 31, 2016 adjusted	\$ 287,966	\$ 77,924	\$ 48,108	\$ 413,998
Acquisitions	5,837	-	-	5,837
Adjustments	9	1,231	(35 )	1,205
Foreign currency translation	252	954	713	1,919
Net goodwill at December 31, 2017	\$ 294,064	\$ 80,109	\$ 48,786	\$ 422,959

During the year ended December 31, 2017, we recorded an adjustment to goodwill of \$1.2 million related to the Ecofys acquisition in connection with working capital adjustments made during the period.

We performed our annual goodwill impairment test as of May 31, 2018 (see Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements for further information on goodwill testing procedures). The key assumptions included: internal projections completed during our first quarter 2018 forecasting process; profit margin improvement generally consistent with our longer-term historical performance; assumptions regarding contingent revenue; revenue growth consistent with our longer-term historical performance, also considering our near-term investment plans and growth objectives; discount rates based on comparable discount rates for our peer group; revenue and earnings before interest, taxes, depreciation and amortization (“EBITDA”) multiples comparable to multiples for our peer group; Navigant-specific risk considerations; control premium; and cost of capital based on our historical experience.

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, 2018. Accordingly, there was no indication of impairment of our goodwill for any of our reporting units. As of May 31, 2018, the estimated fair value of our Healthcare, Energy and Financial Services Advisory and Compliance reporting units exceeded the fair value of invested capital by 23%, 32% and 72%, respectively.

We have reviewed our most recent financial projections and considered the impact of changes to our business and market conditions on our goodwill valuation and determined that no events or conditions have occurred or are expected to occur that would trigger a need to perform an interim goodwill impairment test. During the year ended December 31, 2018, we reviewed the book value of goodwill and related assets and liabilities held for sale against the fair value based upon the expected sale price and determined that no impairment was indicated. Based on the actual sale price received at closing, as further described in Note 3 – Dispositions and Discontinued Operations, we made no changes to that conclusion. 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, 2019.

As part of the disposition of SaleCo, we sold \$0.3 million of intangible assets; which is net of \$3.2 million of accumulated amortization. Intangible assets consisted of (in thousands):

	December 31, 2018	December 31, 2017
Intangible assets:		
Customer lists and relationships	\$ 105,368	\$ 106,035
Non-compete agreements	22,923	22,866
Other	28,304	28,825
Intangible assets, at cost	156,595	157,726
Less: accumulated amortization	(142,429)	(137,554)
Intangible assets, net	\$ 14,166	\$ 20,172

Our intangible assets have estimated remaining useful lives ranging up to six years which approximate the estimated periods of consumption. We will amortize the remaining net book values of intangible assets over their remaining useful lives. At December 31, 2018, our intangible assets categories were as follows (in thousands, except year data):

Category	Weighted	Amount
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Average

Remaining

	Years	
Customer lists and relationships, net	4.0	\$12,541
Non-compete agreements, net	2.4	1,148
Other intangible assets, net	3.5	477
Total intangible assets, net	3.8	\$14,166

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Total amortization expense was \$6.5 million, \$8.6 million and \$10.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. The estimated annual aggregate amortization expense to be recorded in the next five years related to intangible assets at December 31, 2018 is as follows (in thousands):

Year Ending December 31,	Amount
2019	4,511
2020	3,523
2021	3,696
2022	679
2023 and thereafter	1,757

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

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

	For the year ended		
	December 31,		
	2018	2017	2016
Basic shares	44,328	46,593	47,343
Employee stock options	162	151	129
Restricted stock units	1,197	1,424	1,262
Contingently issuable shares	40	58	79
Diluted shares	45,727	48,226	48,813
Antidilutive shares (1)	24	184	136

(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.

#### 8. STOCKHOLDERS' EQUITY

For the year ended December 31, 2018

During the year ended December 31, 2018, we paid cash dividends of \$4.3 million.

During the year ended December 31, 2018, we commenced operation of HSS. We have a 60% financial and controlling interest in HSS and as such we fully consolidate its operations. As a result, we recorded an initial cash investment from our partner of \$3.6 million and net income attributable to our partner of \$0.4 million.

During the year ended December 31, 2018, we realized \$16.7 million in foreign currency translation loss related our European based entity which was included in the disposition of SaleCo (See Note 3 – Dispositions and Discontinued Operations).

During the year ended December 31, 2018, we repurchased 4,952,505 shares of our common stock at a weighted average price of \$22.73.

During the year ended December 31, 2018, we retired 9,500,000 shares of treasury stock. As a result, within the stockholders' equity accounts on our consolidated balance sheets, treasury stock was reduced by \$175.9 million for the value of the shares calculated using the weighted average treasury stock inventory price, common stock was reduced \$9.5 thousand for the aggregate par value of the shares retired, and \$175.9 million was recorded as a reduction to retained earnings.

During the year ended December 31, 2018, we adopted FASB ASU 2014-09, Revenue from Contracts with Customers (Topic 606). As a result of this adoption, we recorded a cumulative-effect adjustment to retained earnings as of the date of adoption was \$0.2 million. See Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements for more information.

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For the year ended December 31, 2017

During the year ended December 31, 2017, we repurchased 2,322,415 shares of our common stock at a weighted average price of \$18.52. During the year ended December 31, 2017, \$2.5 million relating to accrued incentive compensation liabilities for the 2016 performance year was recorded as additional paid-in capital at the time of grant of the restricted stock units in 2017.

During the year ended December 31, 2017, we adopted FASB ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employees Share-Based Payment Accounting. As a result of this adoption, we recorded a cumulative-effect adjustment to retained earnings as of the date of adoption was \$0.4 million, with a reduction in the related deferred tax liability of \$0.3 million. See Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements for more information.

For the year ended December 31, 2016

During the year ended December 31, 2016, we repurchased 1,436,147 shares of our common stock at a weighted average price of \$17.45. During the year ended December 31, 2016, \$1.9 million relating to accrued incentive compensation liabilities for the 2015 performance year was recorded as additional paid-in capital at the time of grant of the restricted stock units in 2016.

During the year ended December 31, 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 \$140.3 million for the value of the shares calculated using the weighted average treasury stock inventory price, common stock was reduced \$8.0 thousand for the aggregate par value of the shares retired, and \$140.3 million was recorded as a reduction to retained earnings.

## 9. SHARE-BASED COMPENSATION EXPENSE

### Summary

On May 16, 2017, our shareholders approved the Navigant Consulting, Inc. 2017 Long-Term Incentive Plan ("2017 Plan"). The purposes of the 2017 Plan are: (i) to align the interests of our shareholders and recipients of awards under the 2017 Plan by increasing the proprietary interest of such recipients in the Company's growth and success; (ii) to advance the interests of the Company by attracting and retaining officers, other employees, non-employee directors, consultants, independent contractors and agents; and (iii) to motivate such persons to act in the long-term best interests of the Company and our shareholders. The 2017 Plan allows for awards of stock options, stock appreciation rights, restricted stock and restricted stock units, and performance awards.

As of December 31, 2018, 2,971,497 shares remained available for future issuance of all types of awards under the 2017 Plan.

We record share-based compensation expense for restricted stock units and awards, stock options and the discount given on employee stock purchase plan transactions. Our long-term incentive program for our senior-level employees currently provides for either an award of restricted stock units or deferred cash. Stock options issued under the 2017 Plan expire six years after the grant date. The aggregate value of the awards granted to eligible recipients is determined based on our financial performance for the prior fiscal year, and the awards vest three years following the date of grant. During the year ended December 31, 2018, we recorded \$1.5 million in other compensation expense related to this program. These awards are expected to have an approximate fair value of \$6.0 million on the grant date in 2019.

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

	For the year ended		
	December 31,		
	2018	2017	2016
Amortization of restricted stock awards and restricted stock unit awards	\$7,671	\$9,877	\$9,601
Amortization of stock option awards	106	684	864
Discount given on employee stock purchase transactions through our Employee Stock Purchase Plan	294	293	246
Share-based compensation expense from continuing operations	8,071	10,854	10,711
Share-based compensation (benefit) expense from discontinued operations	(1,489)	2,183	2,360
Total share-based compensation expense	\$6,582	\$13,037	\$13,071

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

	For the year ended		
	December 31,		
	2018	2017	2016
Cost of services before reimbursable expenses	\$2,856	\$5,122	\$5,434
General and administrative expenses	5,215	5,732	5,277
Share-based compensation expense from continuing operations	8,071	10,854	10,711
Share-based compensation (benefit) expense from discontinued operations	(1,489)	2,183	2,360
Total share-based compensation expense	\$6,582	\$13,037	\$13,071

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. Share-based compensation expense from discontinued operations is a benefit for the year ended December 31, 2018 primarily due to reversals of share-based compensation expense recorded in prior years for SaleCo employees holding awards forfeited upon sale.

Income tax benefit recorded in the accompanying consolidated statements of comprehensive income (loss) related to share-based compensation expense for the years ended December 31, 2018, 2017 and 2016 was \$1.9 million, \$4.7 million and \$4.9 million, respectively.

At December 31, 2018, we had \$7.4 million of total compensation costs related to unvested share-based awards, primarily restricted stock units, 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. These grants include certain awards that vest based on relative achievement of pre-established performance criteria.

#### Restricted Stock Units Outstanding

The measurement price of our restricted stock units is the market price of our common stock at the date of grant of the awards. The following table summarizes information regarding restricted stock units outstanding as of December 31, 2018:

Range of Measurement Date Prices	Outstanding Shares (000s)	Weighted
		Average Measurement Date Price
\$10.00 — \$14.99	47	\$ 14.02
\$15.00 — \$19.99	591	15.84
\$20.00 and above	797	22.09
Total restricted stock units outstanding	1,435	\$ 19.25

The following table summarizes restricted stock unit activity for the year ended December 31, 2018:

	Number of Shares	Weighted Average Measurement Date Price
	(000s)	
Restricted stock units outstanding at beginning of the period	2,304	\$ 17.39
Granted	482	21.47
Vested	(856 )	20.57
Forfeited	(495 )	19.10
Restricted stock units outstanding at end of period	1,435	\$ 19.25

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During the year ended December 31, 2018, we granted 481,647 restricted stock units. At the time of grant, the awards had a fair value of \$10.3 million. Of the restricted stock granted, 79,433 were restricted stock awards and vested immediately upon grant. Of the restricted stock units granted, 132,195 restricted stock units vest based upon the achievement of certain performance criteria or market conditions. Of these restricted stock units granted, 26,598 were granted to employees of our discontinued operations. Of the restricted stock units vested, 97,290 were performance-based or based on market conditions. The restricted stock unit forfeitures were primarily related to awards held by employees who were transferred with the SaleCo transaction.

The 79,433 restricted stock awards were approved by the compensation committee of the board of directors and were granted to our executive officers in order to reward them for their contributions and performance related to the SaleCo transaction. The related expenses are included in income from discontinued operations, net of tax.

Stock Options Outstanding

At December 31, 2018, the intrinsic value of the stock options outstanding and stock options exercisable was \$4.1 million and \$3.5 million, respectively, based on a market price of \$24.05 per share for our common stock at December 31, 2018.

The following table summarizes stock option activity for the year ended December 31, 2018:

	Number of Shares	Weighted Average Exercise Price
	(000's)	
Options outstanding beginning of the period	614	\$ 14.56
Exercised	(162 )	13.36
Options outstanding at end of the period	452	\$ 14.99
Options exercisable at beginning of the period	439	\$ 14.50
Options exercisable at end of the period	388	\$ 14.96

The following table summarizes information regarding stock options outstanding at December 31, 2018:

Range of Exercise Prices	Outstanding Shares	Weighted Average Exercise Price	Weighted Remaining Exercise Period (years)
(000s)			
\$10.00 — \$14.99	182	\$ 13.28	1.4
\$15.00 — \$19.99	270	16.14	2.6
Total	452	\$ 14.99	2.1



The following table summarizes information regarding stock options exercisable at December 31, 2018:

Range of Measurement Date Prices	Outstanding Shares (000s)	Weighted Average Exercise Price	Remaining Exercise Period (years)
\$10.00 — \$14.99	182	\$ 13.28	1.4
\$15.00 — \$19.99	206	16.43	2.5
<b>Total</b>	<b>388</b>	<b>\$ 14.96</b>	<b>2.0</b>

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## Stock Option Grants

The fair value of each option grant is estimated at the grant date using the Black-Scholes-Merton option-pricing model. No option grants were issued during the years ended December 31, 2018 or 2017. The weighted average fair value of options granted, and the assumptions used in the Black-Scholes-Merton option-pricing model were as follows:

	2016
Fair value of options granted	\$4.85
Expected volatility	33 %
Risk free interest rate	1.6 %
Forfeiture rate	0 %
Dividend yield	0 %
Contractual or expected lives (years)	5.0

We estimated a zero-forfeiture rate for these stock option grants as the awards have short vesting terms and have a low probability of forfeiture based on the recipients of the stock options.

During the years ended December 31, 2018, 2017, and 2016, we received \$0.5 million, \$0.6 million, and \$1.3 million, respectively, of cash from employee stock option exercises. Additionally, during the years ended December 31, 2018, 2017, and 2016, we generated tax benefits of \$0.3 million, \$0.3 million, and \$0.2 million, respectively, related to employee stock option exercises.

## Employee Stock Purchase Plan

On May 3, 2006, our shareholders approved an employee stock purchase plan that became effective on January 1, 2007. The employee stock purchase plan permits employees to purchase shares of our common stock each quarter at 90 percent of the market value. The market value of shares purchased for this purpose is determined to be the closing market price on the last day of each calendar quarter. The plan is considered compensatory and, as such, the purchase discount from market price purchased by employees is recorded as compensation expense. During the years ended December 31, 2018, 2017 and 2016, we recorded \$0.3 million, \$0.4 million, and \$0.3 million, respectively, of compensation expense related to the discount given on employee stock purchases through our employee stock purchase plan for continuing and discontinued operations. During the years ended December 31, 2018, 2017 and 2016, we issued 159,622, 183,029, and 178,857 shares, respectively, of our common stock pursuant to this plan.

The maximum number of shares of our common stock remaining at December 31, 2018 that can be issued under the employee stock purchase plan was 2,446,361 shares. The employee stock purchase plan will expire on the date that all of the shares available under it are purchased by or issued to employees.

During the years ended December 31, 2018, 2017, and 2016, we received \$3.1 million, \$3.3 million, and \$3.0 million, respectively, of cash from employee stock purchases, from employees of both continuing and discontinued operations.

## 10. SUPPLEMENTAL CONSOLIDATED BALANCE SHEET INFORMATION

### Accounts Receivable, Net and Contract Assets

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

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	December 31, 2018	December 31, 2017
Billed amounts	\$ 116,190	\$ 112,356
Engagements in process	74,633	64,835
Allowance for uncollectible billed amounts	(7,815 )	(6,288 )
Allowance for uncollectible engagements in process	(3,085 )	(5,065 )
Accounts receivable, net and contract assets	\$ 179,923	\$ 165,838

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Receivables attributable to engagements in process represent balances for services that have been performed and earned but have not been billed to the client. Engagements in process include contract assets. See Note 4 – Revenue Recognition for information on contract assets. Services are generally billed on a monthly basis for the prior month’s services. Our allowance for uncollectible accounts is based on historical experience and management judgment and may change based on market conditions or specific client circumstances.

Prepaid Expenses and Other Current Assets

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

	December 31, 2018	December 31, 2017
Prepaid recruiting and retention incentives - current	\$ 4,552	\$ 4,437
Other prepaid expenses and other current assets	17,960	16,569
Prepaid expenses and other current assets	\$ 22,512	\$ 21,006

Other Assets

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

	December 31, 2018	December 31, 2017
Prepaid recruiting and retention incentives - non-current	\$ 2,654	\$ 3,164
Prepaid expenses and other non-current assets	5,990	6,214
Other assets	\$ 8,644	\$ 9,378

During the years ended December 31, 2018, 2017 and 2016, we granted \$6.4 million, \$3.9 million and \$7.2 million, respectively, in sign-on and retention bonuses.

Property and Equipment, Net

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

	December 31, 2018	December 31, 2017
Furniture, fixtures and equipment	\$55,619	\$56,298
Software	86,225	86,611
Leasehold improvements	47,097	46,118
Property and equipment, at cost	188,941	189,027
Less: accumulated depreciation and amortization	(125,916)	(117,595)

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Property and equipment, net	\$63,025	\$71,432
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During the year ended December 31, 2018, we invested \$15.5 million in property and equipment, including \$5.4 million in leasehold improvements, \$9.2 million in our technology infrastructure and software, and \$0.9 million in furniture and other equipment.

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## Other Current Liabilities

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

	December 31, 2018	December 31, 2017
Deferred acquisition liabilities - current	\$ 969	\$ 3,897
Contract liabilities	28,909	21,621
Deferred rent - current	2,656	2,466
Other current liabilities	1,510	2,566
<b>Total other current liabilities</b>	<b>\$ 34,044</b>	<b>\$ 30,550</b>

Contract liabilities represents advance billings to our clients for services that have not yet been performed and earned. Further information regarding the amount of revenue recognized of the beginning contract liabilities balance in the year ended December 31, 2018 can be found in Note 4 - Revenue Recognition. As a result of our adoption of Topic 606, as of January 1, 2018 we renamed Deferred revenue to Contract liabilities.

## Other Non-Current Liabilities

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

	December 31, 2018	December 31, 2017
Deferred acquisition liabilities - non-current	\$ 710	\$ 1,972
Deferred rent - non-current	21,648	23,499
Other non-current liabilities	2,919	1,131
<b>Total other non-current liabilities</b>	<b>\$ 25,277</b>	<b>\$ 26,602</b>

Deferred acquisition liabilities, current and non-current, at December 31, 2018 consisted of cash obligations related to contingent and definitive purchase price considerations recorded at fair value and net present value, respectively. During the year ended December 31, 2018, \$3.4 million was paid for settlement of the related deferred acquisition liabilities. See Note 17 – Fair Value for additional information regarding deferred contingent consideration fair value adjustments.

The current and non-current portions of deferred rent relate to tenant allowances and incentives on lease arrangements for our office facilities that expire at various dates through 2030.

At December 31, 2018, 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 typically vest three years from the grant date. The value of equity granted is based on the relative achievement of certain performance targets during the year prior to grant.



## 11. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	For the year ended December 31,		
	2018	2017	2016
<b>Unrealized loss on foreign exchange:</b>			
Balance at beginning of period	\$ (19,308)	\$ (25,166)	\$ (16,446)
Unrealized (loss) gain on foreign exchange	(3,898 )	5,858	
Realized loss (gain) on foreign exchange	16,677	-	(8,720 )
Balance at end of period	\$ (6,529 )	\$ (19,308)	\$ (25,166)
<b>Unrealized gain (loss) on derivatives:</b>			
Balance at beginning of period	\$ 130	\$ (40 )	\$ (114 )
Unrealized gain (loss) on derivatives in period, net of reclassification	548	100	(72 )
Realized gain on termination of derivatives	(452 )	-	-
Reclassified to interest expense	(79 )	116	244
Income tax expense	(147 )	(46 )	(98 )
Balance at end of period	\$ -	\$ 130	\$ (40 )
	2018	2017	2016
Accumulated other comprehensive loss at December 31,	\$ (6,529 )	\$ (19,178)	\$ (25,206)

During the year ended December 31, 2018, we realized \$16.7 million in foreign currency translation loss related our European based entity which was included in the disposition of SaleCo (See Note 3 –Dispositions and Discontinued Operations).

## 12. DERIVATIVES AND HEDGING ACTIVITY

During the year ended December 31, 2018, all of the Company's outstanding interest rate derivatives were settled before their original expiration dates, as the related underlying debt outstanding was repaid from the proceeds of the SaleCo transaction. As a result, a gain of \$0.4 million was recognized on termination of these interest rate swaps, including other costs related to the termination.

Historically, the Company's interest rate derivatives were expected to be highly effective against changes in cash flows related to changes in interest rates and thus they were 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 have been recorded as a component of accumulated other comprehensive loss and reclassified into interest expense as the variable interest expense on our bank debt was recorded. There was no ineffectiveness related to the interest rate derivatives during the year ended December 31, 2018 through the date of their settlement. For the years ended December 31, 2018, 2017 and 2016, we recorded (\$0.1) million, \$0.1 million, and \$0.2 million, respectively, in interest expense associated with differentials received or paid under the interest rate derivatives.





## 13. BANK DEBT

Our credit agreement provides a \$350 million revolving credit facility. The credit facility becomes due and payable in full upon maturity on March 28, 2022. At our option, subject to the terms and conditions specified in the credit agreement, we may elect to increase commitments under the credit facility up to an aggregate amount of \$450 million. Borrowings and repayments under the credit facility may be made in multiple currencies including United States (U.S.) Dollars, Canadian Dollars, United Kingdom (U.K.) Pound Sterling and Euro.

At December 31, 2018, we had no aggregate borrowings outstanding, compared to \$132.9 million at December 31, 2017. Based on our financial covenants at December 31, 2018, approximately \$346.5 million in additional borrowings were available to us under the credit facility. At December 31, 2018, we had \$3.5 million of unused letters of credit under our credit facility, which have been included as a reduction in the available borrowings above. The letters of credit are primarily related to the requirements of certain lease agreements for office space.

At our option, borrowings under the credit facility bear interest at a variable rate equal to an applicable base rate or LIBOR, in each case plus an applicable margin. For LIBOR loans, the applicable margin varies depending upon our consolidated leverage ratio (the ratio of total funded debt to adjusted EBITDA, as defined in the credit agreement). At December 31, 2018, the applicable margins on LIBOR and base rate loans were 1.00% and 0.00%, respectively. Depending upon our performance and financial condition, our LIBOR loans will have applicable margins varying between 1.00% and 2.00%, and our base rate loans have applicable margins varying between 0.00% and 1.00%. Our average borrowing rate (including the impact of our interest rate derivatives; see Note 12 — Derivatives and Hedging Activity) was 3.4% and 2.6% for the years ended December 31, 2018 and 2017, respectively.

Our credit agreement contains certain financial covenants, including covenants that require that we maintain a consolidated leverage ratio of not greater than 3.5:1, with certain exceptions as defined in the agreement, and a consolidated interest coverage ratio (the ratio of the sum of adjusted EBIT, as defined in the credit agreement, to cash interest expense) of not less than 2.0:1. At December 31, 2018, under the definitions in the credit agreement, our consolidated leverage ratio was 0.0 and our consolidated interest coverage ratio was 50.9. In addition, the credit agreement contains customary affirmative and negative covenants (subject to exceptions), including covenants that in certain circumstances limit our ability to incur liens or other encumbrances, make investments and acquisitions, incur indebtedness, enter into mergers, consolidations and asset dispositions, pay cash dividends after the occurrence of an event of default, change the nature of our business and engage in transactions with affiliates, as well as customary provisions with respect to events of default. We were in compliance with the covenants contained in our credit agreement at December 31, 2018; however, there can be no assurances that we will remain in compliance in the future.

## 14. OTHER OPERATING COSTS (BENEFIT)

Other operating costs (benefit) for the years ended December 31, 2018, 2017, and 2016 consisted of the following (shown in thousands):

	2018	2017	2016
Office consolidation, net:			
Adjustments to office closure obligations, discounted			
and net of expected sublease income	\$371	\$141	\$(738 )
Rent expense during office consolidation	-	-	1,247
Accelerated depreciation	-	101	33
Office consolidation, net	371	242	542
Contingent acquisition liability adjustments, net	(984 )	2,213	1,330

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Gain on termination of swaps and other financing costs	(418 )	-	-
Deferred debt issuance costs write off	-	145	-
Intangible and other assets impairment	1,618	-	-
Other costs	2,541	-	-
Other operating costs	\$3,128	\$2,600	\$1,872

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## Contingent Acquisition Liability Adjustment, Net

Contingent acquisition liabilities are initially estimated based on expected performance at the acquisition date and subsequently reviewed each quarter (see Note 17 – Fair Value). During the years ended December 31, 2018, 2017 and 2016 we recorded fair value adjustments to the carrying value of acquisition-related liabilities of \$(1.0) million, \$2.2 million and \$1.3 million, respectively.

## Other Costs

During the year ended December 31, 2018, we recorded an impairment of software of \$1.6 million, which is recorded in Intangible and other assets impairment, and incurred costs of \$2.6 million related to the consideration of the SaleCo transaction, prior to the execution of the sale agreement, as well as certain costs associated with additional disclosure obligations in connection with a shareholder activism matter, which are recorded in Other costs.

## 15. LEASE COMMITMENTS

We lease office facilities under operating lease arrangements that expire at various dates through 2030. We lease office facilities under operating leases that include fixed or minimum payments plus, in some cases, scheduled base rent increases over the terms of the leases and additional rents based on the Consumer Price Index. Certain leases provide for monthly payments of real estate taxes, insurance and other operating expenses applicable to the property.

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

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

Rent expense for operating leases was \$25.3 million, \$22.7 million and \$19.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

## 16. INCOME TAXES

The sources of income before income taxes are as follows (shown in thousands):

	For the year ended December 31,		
	2018	2017	2016
United States	\$ 25,106	\$ 21,386	\$ 33,926
Foreign	(1,023 )	(2,060 )	(2,391 )

Total income from continuing operations before income tax expense	\$ 24,083	\$ 19,326	\$ 31,535
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Income tax expense (benefit) consists of the following (shown in thousands):

	For the year ended December 31,		
	2018	2017	2016
Federal:			
Current	\$ 8,959	\$ (1,565 )	\$ 17,324
Deferred	(2,052)	(11,805)	(5,555 )
Total	6,907	(13,370)	11,769
State:			
Current	1,624	(26 )	3,945
Deferred	(989 )	1,247	(1,402 )
Total	635	1,221	2,543
Foreign:			
Current	1,141	113	(270 )
Deferred	217	5	(805 )
Total	1,358	118	(1,075 )
Total federal, state and foreign income tax expense (benefit) from continuing operations	\$ 8,900	\$ (12,031)	\$ 13,237

Income tax expense (benefit) differs from the amounts estimated by applying the statutory income tax rates to income before income taxes as follows:

	For the year ended December 31,		
	2018	2017	2016
Federal tax expense at the statutory rate	21.0 %	35.0 %	35.0 %
State tax expense at the statutory rate, net of federal tax benefits	6.6	5.5	5.6
Foreign taxes	3.2	4.6	1.8
Effect of accounting for stock compensation	(5.5 )	(8.6 )	-
Effect of enacted tax rate changes	(2.6 )	(95.6)	-
Effect of accounting method changes	7.6	-	-
Effect of FDII	(2.8 )	-	-
Effect of 162M limitation	4.3	-	-
Effect of GILTI	1.6	-	-
Effect of valuation allowances	1.0	1.5	(2.3 )
Effect of permanent timing differences	1.1	1.6	1.0
Effect of other transactions, net	1.5	(6.3 )	0.9
	37.0 %	(62.3)%	42.0 %

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Deferred income taxes result from temporary differences between years in the recognition of certain expense items for income tax and financial reporting purposes. The source and income tax effects of these differences (shown in thousands) are as follows:

	For the year ended December 31,	
	2018	2017
Deferred tax assets (liabilities) attributable to:		
Allowance for uncollectible receivables	\$ 2,125	\$ 1,817
Deferred revenue	2,252	2,357
Accrued compensation	5,028	1,884
Accrued office consolidation costs	220	224
Share-based compensation	6,069	6,578
Unsecured employee loans	789	805
Deferred rent	4,193	3,254
Foreign net operating losses	1,919	1,723
Other	1,402	853
Deferred tax assets before foreign valuation allowance	23,997	19,495
Foreign valuation allowance	(1,879 )	(1,729 )
Deferred tax assets	22,118	17,766
Goodwill & intangible assets	(46,474)	(43,875)
Depreciation and amortization	(7,522 )	(8,547 )
Prepaid expenses	(2,023 )	(1,942 )
Deferred tax liabilities	(56,019)	(54,364)
Net deferred tax liabilities	\$ (33,901)	\$ (36,598)

When appropriate, we evaluate the need for a valuation allowance to reduce deferred tax assets. The evaluation of the need for a valuation allowance requires management judgment and could impact our financial results and effective tax rate. Management has determined that it is more likely than not, due to the uncertainty surrounding certain of our international business operations, that sufficient future taxable income will not be available to realize certain deferred tax assets; therefore, management recognized a full valuation allowance for those deferred tax assets in the financial statements.

On January 1, 2017, we adopted FASB ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. As required by the standard, excess tax benefits and deficiencies recognized in share-based compensation expense are recorded in the consolidated statement of comprehensive income as a component of income tax expense. Previously, these amounts were recorded as a component of additional paid-in capital on the consolidated balance sheet. During the years ended December 31, 2018 and 2017, excess tax benefits of \$1.6 million and \$1.7 million, respectively, related to exercised and vested share-based compensation awards reduced income tax expense in the consolidated statement of comprehensive income. See Note 2 – Summary of Significant Accounting Policies and Recent Accounting Pronouncements for further information.

#### Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 1, 2018	\$1,662
Additions based on tax positions related to the current year	-
Additions for tax positions of prior years	3,522
Reductions for tax positions of prior years	-
Settlements	(3,389)
Balance at December 31, 2018	\$1,795

Of the \$1.8 million of our accrual for uncertain tax positions at December 31, 2018, \$0.5 million would impact our effective income tax rate if recognized. We believe that only a specific resolution of the matters with the taxing authorities or the expiration of the applicable statute of limitations would provide sufficient evidence for management to conclude that the deductibility is more likely than not sustainable.

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We recognize interest and penalties accrued related to uncertain tax positions as income tax expense. The total amount of interest and penalties accrued as of December 31, 2018 and December 31, 2017 was \$0.4 million and \$0.3 million, respectively.

During the year ending December 31, 2018, we reached an IRS audit settlement for year 2014 that increased income tax expense by \$1.8 million. The adjustments from the 2014 IRS audit provided for a change in accounting method with respect to the deductibility of certain compensation expenses. The audit settlement related to the timing of the deductions for specific performance-based bonuses. The largest impact of the adjustment relates to the 2014 tax year, as the timing differences reverse in the following years.

We are subject to U.S. federal income tax as well as income tax in multiple state and foreign jurisdictions. We have substantially concluded all U.S. federal and material state income tax matters for years through 2014. Our Indian subsidiary which we acquired from RevenueMed, Inc. is currently under either audit or tax appeals with its local taxing authority for all statutory tax years 2009 through 2014.

On December 22, 2017, the President of the United States signed into law Tax Reform. The legislation significantly changes U.S. tax law by, among other things, lowering corporate income tax rates, implementing a territorial tax system and imposing a repatriation tax on deemed repatriated earnings of foreign subsidiaries. Tax Reform permanently reduces the U.S. corporate income tax rate from a maximum of 35% to a flat 21% rate, effective January 1, 2018.

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under Tax Reform, the Company revalued its ending net deferred tax liabilities at December 31, 2017 and recognized a provisional \$29.8 million tax benefit in the Company's consolidated statement of comprehensive income for the year ended December 31, 2017. Of this benefit, \$18.6 million was recognized in continuing operations.

As part of the 2017 tax reform legislation (the Tax Act), Congress added section 250 to the Internal Revenue Code, which effectively creates a new preferential tax rate for income derived by domestic corporations from serving foreign markets. A corporation pays an effective rate of 13.125% (rather than 21%) on its above-routine income arising from foreign markets. This new deduction is described as a deduction for foreign-derived intangible income, or FDII. The FDII deduction is available to domestic corporations that are taxed as C corporations.

While Tax Reform provides for a territorial tax system, beginning in 2018, it includes two new U.S. tax base erosion provisions, the global intangible low-taxed income ("GILTI") provisions and the base-erosion and anti-abuse tax ("BEAT") provisions.

The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary's tangible assets. The Company has elected to account for GILTI tax in the period in which it is incurred, and therefore has not provided any deferred tax impacts of GILTI in its consolidated financial statements for the year ended December 31, 2018. For the year ended December 31, 2018, included in the amount recorded is \$0.4 million and \$9.6 million for the income tax effects of the GILTI provisions for continuing and discontinued operations, respectively.

The BEAT provisions in Tax Reform eliminates the deduction of certain base-erosion payments made to related foreign corporations and imposes a minimum tax if greater than regular tax. The Company has not made a material amount of base-erosion payments and has not included any tax impacts of BEAT in its consolidated financial

statements for the year ended December 31, 2018.

The Company included an estimated \$10.7 million of undistributed earnings in income subject to U.S. tax at reduced tax rates for the year ended December 31, 2018. The Company does not intend to distribute earnings in a taxable manner, and therefore intends to limit distributions to earnings previously taxed in the U.S., or earnings that would qualify for the 100% dividends received deduction provided for in Tax Reform, and earnings that would not result in any significant foreign taxes. As a result, the Company has not recognized a deferred tax liability on its investment in foreign subsidiaries.

#### 17. 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.

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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 12 — 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 year ended December 31, 2018, we recorded a benefit of \$1.0 million and during the years ended December 31, 2017 and 2016, we recorded costs of \$2.2 million and \$1.3 million, respectively, in other operating costs (benefit) for a net change in the liability, reflecting changes in the fair value estimate of the deferred contingent acquisition liability. The following table summarizes the changes in deferred contingent acquisition liabilities (in thousands):

	For the year ended	
	December 31,	
	2018	2017
Beginning Balance	\$3,870	\$1,723
Accretion of acquisition-related contingent consideration	180	264
Remeasurement of acquisition-related contingent consideration	(984 )	2,213
Payments	(2,356)	(330 )
Ending Balance	\$710	\$3,870

At December 31, 2018, we had no outstanding indebtedness. We consider the recorded value of our financial assets and liabilities, which consist primarily of cash and cash equivalents, accounts receivable, net and contract assets and accounts payable, to approximate the fair value of the respective assets and liabilities at December 31, 2018 based upon the short-term nature of the assets and liabilities. As of December 31, 2018, we had minimal financial assets and liabilities measured at fair value on a recurring basis.

#### 18. EMPLOYEE BENEFIT PLANS

We sponsor 401(k) savings plans for eligible U.S. employees and currently match a certain percentage of participant contributions pursuant to the terms of the plans, which contributions are limited to a percent of the participant's eligible compensation, up to the annual limit specified by the Internal Revenue Service. We, as sponsor of the plans, use independent third parties to provide administrative services to the plans. We have the right to terminate the plans at any time. Our matching contributions were \$9.2 million, \$9.5 million, and \$9.0 million for the years ended December 31, 2018, 2017 and 2016, respectively. Of the matching contributions for the year ended December 31, 2018, \$1.9 million was recorded in income from discontinued operations, net of tax.

We sponsor other retirement plans for certain of our foreign subsidiaries' employees. During the years ended December 31, 2018, 2017 and 2016, we recorded expense of \$3.2 million, \$2.7 million and \$2.7 million, respectively, related to such plans. Of the expense for the year ended December 31, 2018, \$1.3 million was recorded in income from discontinued operations, net of tax.

#### 19. LITIGATION AND SETTLEMENTS

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.

## SCHEDULE II

## NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

## VALUATION AND QUALIFYING ACCOUNTS

Years ended December 31, 2018, 2017 and 2016

Description	Balance at Beginning of Year (In thousands)	Additions			Balance at End of Year
		Charged to Expense(1)	Other Accounts	Deductions (2)	
Year ended December 31, 2018					
Allowance for doubtful accounts and uncollectable engagements in process	\$11,353	\$3,744	\$ (2,300 )	\$ (1,896 )	\$10,900
Year ended December 31, 2017					
Allowance for doubtful accounts and uncollectable engagements in process	\$7,453	\$3,743	\$ 1,484	\$ (1,328 )	\$11,353
Year ended December 31, 2016					
Allowance for doubtful accounts and uncollectable engagements in process	\$5,822	\$1,377	\$ 1,324	\$ (1,070 )	\$7,453

(1) Represents estimated provision for uncollectible engagements in process recorded as a reduction to revenues.

(2) Represents write-offs.

See accompanying report of independent registered public accounting firm.

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