NAVIGANT CONSULTING INC
Form 10-K
February 18, 2011

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2010**
	OR
o	**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 incorporation or organization)	*(I.R.S. Employer Identification No.)*

30 South Wacker Drive, Suite 3550, Chicago, Illinois 60606
(Address of principal executive offices, including zip code)

(312) 573-5600
(Registrant s telephone number, including area code)

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 þ NO o

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 o NO þ

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 þ NO o

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

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 a definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of February 14, 2011, approximately 51.6 million 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 registrant s 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, 2010, was approximately $519.4 million.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information from the registrant s definitive Proxy Statement for its Annual Meeting of Shareholders, scheduled to be held on April 25, 2011, is incorporated by reference into Part III of this Annual Report on Form 10-K. The registrant intends to file the Proxy Statement with the Securities and Exchange Commission within 120 days of December 31, 2010.

NAVIGANT CONSULTING, INC. AND SUBSIDIARIES

FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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PART 1

Statements included in this report and its exhibits which are not historical in nature are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may generally be identified by words such as anticipate, believe, intend, estimate, expect, plan, outlook and similar expressi caution readers that there may be events in the future that we are not able to accurately predict or control and the information contained in the forward-looking statements is inherently uncertain and subject to a number of risks that could cause actual results to differ materially from those contained in or implied by the forward-looking statements, including the factors described in Item 1A Risk Factors and in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report. We cannot guarantee any future results, levels of activity, performance or achievement and we undertake no obligation to update any of the forward-looking statements contained in this report.

Item 1. *Business.*

Navigant Consulting, Inc. (referred to throughout this document as we , us or our) is an independent specialty consulting firm that combines deep industry knowledge with technical expertise to enable companies to create and protect value in the face of complex and critical business risks and opportunities. Professional services include dispute, investigative, economic, operational, risk management and financial and risk advisory solutions. We are not a certified public accounting firm and do not provide audit, attest, or public accounting services.

We are a Delaware corporation incorporated in 1996 and headquartered in Chicago, Illinois. Our executive office is located at 30 South Wacker Drive, Suite 3550, 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 .

Overview

We market our services directly to corporate counsel, law firms, governmental entities, corporate boards, corporate executives and special committees. We use a variety of business development and marketing channels to communicate directly with current and prospective clients, including on-site presentations, industry seminars, and industry-specific articles. New engagements are sought and won by our senior and mid-level consultants working together with our business development team that supports all segments. Our future performance will continue to depend upon the ability of our consultants to win new engagements as well as our ability to retain such consultants.

A significant portion of new business arises from prior client engagements. In addition, we seek to leverage our client relationships in one business segment to cross sell existing services provided by the other segments. Clients frequently expand the scope of engagements during delivery to include follow-on, complementary activities. In addition, an on-site presence affords our consultants the opportunity to become aware of, and to help define, additional project opportunities as they are identified.

We derive our revenues from fees and reimbursable expenses for professional services. A majority of our revenues are generated under hourly or daily rates billed on a time and expense basis. Clients are typically invoiced on a monthly basis, with revenue recognized as the services are provided. There are also client engagements in which we are paid a fixed amount for our services, often referred to as fixed fee billings; the vast majority of our health care practice utilizes fixed billing arrangements. This may be one single amount covering the whole engagement or several amounts for various phases or functions. From time to time, we earn incremental revenues, in addition to hourly or fixed fee billings, which are contingent on the attainment of certain contractual milestones or objectives. We also recognize revenue from business referral fees or commissions on certain contractual outcomes. These revenues may cause unusual variations in quarterly revenues and operating results.

Our most significant expense is cost of services before reimbursable expenses, which generally relates to costs associated with generating revenues, and includes consultant compensation and benefits, sales and marketing expenses and the direct costs of recruiting and training the consulting staff. Consultant compensation consists of salaries, incentive compensation, amortization of signing and retention incentive payments, stock compensation and benefits. Our most significant overhead expenses are administrative compensation and benefits and office-related expenses. Administrative compensation includes payroll costs, incentive compensation, stock compensation and benefits for corporate management and administrative personnel, which are used to indirectly support client projects. Office-related expenses primarily consist of rent for our offices. Other administrative costs include bad debt expense, marketing, technology, finance and human capital management.

Service Offerings

We provide wide and varied service offerings to our broad client base. We consider the following to be our key professional services: dispute, investigative, economic, operational, risk management and financial and regulatory advisory solutions.

Industry Sectors

We provide services to and focus on industries undergoing substantial regulatory or structural change. Our service offerings are relevant to most industries including the public sector. However, we have significant industry-specific knowledge and a large client base in the legal, construction, energy, financial services and healthcare industries.

General Development of Business

Since our inception, we have grown through the recruitment of new employees combined with acquisition investments of selective firms that are complementary to our businesses. During 2010, we added dispute and investigative resources with the acquisition of Daylight Forensic & Advisory LLC and expanded our healthcare consulting capabilities with the acquisition of EthosPartners Healthcare Management Group, Inc. Also during 2010, we added significant senior talent that resulted from focused hiring initiatives in key practice areas. In recent years, we acquired Chicago Partners, L.L.C. which formed the basis of our Economic Consulting segment and also acquired several businesses to expand our international presence in Canada and the United Kingdom. (See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Acquisitions for further discussion of acquisitions made during the past three years.)

Financial Information about Business Segments

Our business is organized in four reporting segments Dispute and Investigative Services, Business Consulting Services, International Consulting, and Economic Consulting. The Economic Consulting segment was added in 2008 in connection with our acquisition of Chicago Partners (see Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Acquisitions). These reporting segments are generally defined by the nature of their services and geography and may be the aggregation of multiple operating segments as indicated in the description below. During the first quarter of 2010, certain organizational changes were made which, along with other factors, resulted in the identification of two additional operating segments within the Business Consulting Services segment and the repositioning of certain service offerings between the segments. Prior year comparative segment data has been restated to be consistent with the current presentation. Our business is managed and resources are allocated on the basis of the six operating segments.

The Dispute and Investigative Services reporting segment provides a wide range of services to clients facing the challenges of disputes, litigation, forensic investigation, discovery and regulatory compliance. The clients of this segment are principally law firms, corporate general counsel and corporate boards.

The Business Consulting Services reporting segment provides strategic, operational, financial, regulatory and technical management consulting services to clients, principally C suite and corporate management, governmental entities and law firms. Beginning as of the first quarter of 2010, the reporting segment has been

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comprised of three operating segments, Energy, Healthcare and Other Business Consulting. The Energy and Healthcare business units are defined as operating segments due to their size, importance and organizational reporting relationships. The Energy and Healthcare operating segments provide services to clients in those respective markets. Other Business Consulting operating segment provides operations advisory, valuation and restructuring services to clients in the financial services and other markets.

The International Consulting reporting segment provides a mix of dispute and business consulting services to clients predominately outside North America. The clients are principally C suite and corporate management, governmental entities and law firms.

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

The segment revenues before reimbursements, segment total revenues and segment operating profit (together with a reconciliation to income before income tax expense) for the last three years are included in Note 4 Segment Information to the notes to our consolidated financial statements. Certain unallocated expense amounts related to specific reporting segments have been excluded from the segment operating profit to be consistent with the information used by management to evaluate segment performance. Segment operating profit represents total revenue less cost of services excluding long-term compensation expense related to consulting personnel. The information presented does not necessarily reflect the results of segment operations that would have occurred had the segments been stand-alone businesses.

The relative percentages of revenues attributable to each segment were as follows:

	For the Year Ended December 31,		
	2010	**2009**	**2008**
Dispute and Investigative Services	38.9%	42.8%	43.9%
Business Consulting Services	40.5%	38.1%	40.7%
International Consulting	10.1%	11.3%	10.8%
Economic Consulting	10.5%	7.8%	4.6%

The relative percentages of segment operating profit attributable to each segment were as follows:

	For the Year Ended December 31,		
	2010	**2009**	**2008**
Dispute and Investigative Services	45.1%	48.7%	48.6%
Business Consulting Services	39.2%	36.5%	39.0%
International Consulting	5.0%	6.9%	7.6%
Economic Consulting	10.7%	7.9%	4.8%

Segment Operating Profit as a percentage of segment revenues before reimbursements was as follows:

	For the Year Ended December 31,		
	2010	2009	2008
Dispute and Investigative Services	38.7%	40.7%	44.3%
Business Consulting Services	34.2%	34.9%	39.7%
International Consulting	18.9%	24.2%	29.5%
Economic Consulting	34.3%	35.3%	39.5%
Total segment operating profit	34.6%	36.3%	40.7%

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

	December 31, 2010	December 31, 2009
Dispute and Investigative Services	$ 343,531	$ 304,824
Business Consulting Services	263,465	212,872
International Consulting	69,539	86,804
Economic Consulting	86,719	74,561
Unallocated assets	105,781	141,184
Total assets	$ 869,035	$ 820,245

Unallocated assets primarily consist of cash, prepaid and other assets, deferred income tax assets and property and equipment.

Human Capital Resources

As of December 31, 2010, we had 2,420 employees, which represented 2,359 full time equivalent (FTE) employees, which are total employees adjusted for part-time status. These FTE employees were comprised of 1,779 consultants, 52 project employees and 528 non-billable employees. Our revenues are primarily generated from services performed by our consultants; therefore, success depends in large part on attracting, retaining and motivating talented, creative and experienced professionals at all levels. In connection with recruiting, we employ internal recruiters, retain executive search firms, and utilize personal and business contacts to recruit professionals with significant subject matter expertise and/or consulting experience. Consultants are drawn from the industries we serve, from accounting and other consulting organizations, and from top rated colleges and universities. We try to retain our consultants by offering competitive packages of base and incentive compensation, equity ownership, attractive benefits and rewarding careers. We regularly evaluate consultant resource levels and utilization against future demand expectations and historical trends. We may reduce resources in certain areas in an effort to align with changing demands.

Independent contractors supplement our consultants on certain engagements. We find that hiring independent contractors on a per-engagement basis from time to time allows us to adjust staffing in response to changes in demand for our services.

In addition to the employees and independent contractors discussed above, we have acquired and seek to acquire select consulting businesses to add highly skilled professionals, to enhance our service offerings and to expand our geographical footprint. We believe that the strategy of selectively acquiring consulting businesses and consulting capabilities strengthens our platform, market share and overall operating results.

In connection with recruiting activities and business acquisitions, our general policy is to obtain non-solicitation covenants from senior and some mid-level consultants. 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, staff and projects.

We continually review and adjust, if needed, our consultants total compensation (including salaries, annual cash incentive compensation, other cash and equity incentives, and benefits) to ensure that it is competitive within the industry, is consistent with our performance, and provides us with the ability to achieve target profitability levels.

Our bill rates or fees to clients are tiered in accordance with the experience, and levels of the consulting staff. We monitor and adjust those bill rates according to then-current market conditions for our service offerings and within the various industries we serve.

Competition

The market for consulting 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, as well as global accounting firms, and other local, regional, national and international consulting firms. Many of these companies are international in scope and have larger teams of personnel, financial, technical and marketing resources than we do. However, we believe that our independence, experience, reputation, industry focus, and broad range of professional services enable us to compete effectively in the consulting marketplace.

Concentration of Revenues

Revenues earned from our top 20 clients amounted to 23%, 20% and 21% of our total revenues for the years ended December 31, 2010, 2009 and 2008, respectively. Revenues earned from our top 10 clients amounted to 16%, 14% and 14% of our total revenues for the years ended December 31, 2010, 2009 and 2008, respectively. No single client accounted for more than 5% of our total revenues for any of the years ended December 31, 2010, 2009 and 2008. The mix of our largest clients may change from year to year. Some of our top clients, such as certain law firms, are representatives of other organizations and those clients may change from year to year.

Non-U.S. Operations

We have offices in the United Kingdom, Canada, Hong Kong, and Dubai. In addition, we have clients based in the United States that have international operations. The United Kingdom accounted for 10%, 11% and 12% of our total revenue for the years ended December 31, 2010, 2009 and 2008, respectively. No country, other than the United States and the United Kingdom, accounted for more than 10% of our total revenues in any of the three years ended December 31, 2010, 2009 and 2008. Our non-U.S. subsidiaries, in the aggregate, represented approximately 13%, or $94.3 million, of our total revenues in 2010 compared to 16%, or $114.6 million, in 2009 and 17%, or $134.0 million, in 2008.

Available Information

We maintain a corporate website at *www.navigantconsulting.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 can obtain access to our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K through our website 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 (*www.navigantconsulting.com/investorrelations*) 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., 30 South Wacker Drive, Suite 3550, 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 risk factors should be considered carefully in evaluating us and our business. These factors could have a significant impact on our business, operating results and financial condition.

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

Global 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 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 services obsolete, all of which could have a material adverse effect on our business, results of operations and financial condition. Changes in global economic conditions or the regulatory or legislative landscape could also shift demand to services for which we do not have competitive advantages, and this could negatively affect the

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amount of business that we are able to obtain. Although we have implemented ongoing cost management measures, if we are unable to appropriately manage costs or if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected. Additionally, significant economic turmoil or financial market disruptions could have a material adverse effect on us. These events could also adversely impact the availability of financing to our clients and therefore adversely impact our ability to collect amounts due from such clients or cause them to terminate their contracts with us.

We cannot be assured that we will have access to sufficient sources of capital to meet our working capital needs, to consummate future acquisitions or to repay amounts owed under our long term credit arrangements.

We maintain a $500.0 million unsecured credit agreement, consisting of a $225.0 million unsecured term loan facility and a $275.0 million revolving line of credit, to assist in funding our short-term working capital and long-term cash requirements. As of December 31, 2010, we had $203.0 million in borrowings outstanding under this agreement. Our current credit facility may not be sufficient to meet the future needs of our business, particularly if a decline in our financial performance occurs. If we are unable to otherwise increase our operating cash flows, there can be no assurance that we will be able to raise additional capital or obtain debt financing to consummate future acquisitions or to otherwise meet our working capital needs. Furthermore, if our clients financial condition were to deteriorate, resulting in an impairment of their ability to make payments to us, our financial position and operating cash flows would be adversely impacted. Lastly, certain financial institutions that are lenders under our credit facility could be adversely impacted by the depressed economy and therefore unable to meet their commitments under our credit facility, which in turn would reduce the amounts available to us under that facility.

Our credit agreement expires in May 2012; however, we are currently considering entering into a new credit agreement during 2011. Based on current market conditions, we expect that borrowing under any new credit facility would reflect a higher cost of borrowing than our current borrowings. Additionally, our borrowings under our current credit facility tend to be higher during the first half of the year to fund our annual bonus payments and general working capital requirements, and as a result, our consolidated leverage ratio is expected to increase from December 31, 2010 levels. There can be no assurance that we will be able to renegotiate the term of our current credit agreement when it comes due or enter into a new credit agreement. Furthermore, the factors described above or other factors could increase our borrowing costs and impact the availability of capital to us in future periods.

We have a significant amount of indebtedness. 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, among other things, certain levels of interest and debt coverage. Poor financial performance could cause us to be in default of these covenants. While we were in compliance with these covenants as of December 31, 2010, there can be no assurance that we will remain in compliance in the future. 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.

Our business could be impacted by competition and regulatory and legislative changes.

The market for consulting 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, as well as the global accounting firms, and other local, regional, national, and international consulting firms. Many of these companies are global in scope and have larger teams of personnel, financial, technical, and marketing resources than we do. Some may have lower overhead and other costs and can compete through lower cost service offerings. There is also a risk that downward pressure on pricing may impact our profitability. Many of our clients operate in highly regulated industries such as healthcare, energy, financial services and insurance. Regulatory and legislative changes in these industries could impact the market for our service offerings, including potentially rendering certain of our service offerings obsolete. In addition, regulatory and legislative changes could impact the competition for consulting services. These changes could either increase or decrease our competitive position.

Our business has low barriers to entry making it easy for professionals to start their own business or work independently. In addition, it is relatively easy for professionals to change employers. If we cannot compete effectively, or if the costs of competing, including the cost of retaining and hiring professionals, become too expensive our revenue growth and profitability could be negatively impacted.

Our inability to hire and retain an appropriate level of skilled professionals could have an adverse effect on our ability to meet client needs and the success of our business.

Our success depends, in large part, on our ability to hire, retain, develop and motivate highly skilled professionals. Competition for these skilled professionals is intense. Our inability to hire, retain and motivate adequate numbers of consultants, senior practitioners and executives, or the loss of a significant number of our employees, could have an adverse effect on our ability to meet client needs and to successfully run our business. In particular, we rely heavily on a group of senior executives and senior practitioners and retaining their services is important to our future success. If any of these individuals leave and we cannot quickly find suitable candidates to replace them, it could adversely impact our ability to manage our business. Further, limitations on available equity and any significant volatility or sustained decline in our stock price could impair our ability to use equity-based compensation to attract, retain and motivate professionals. Compensation and retention related issues are a continuing challenge, and our failure to realize the expected financial returns from our recruiting investments could negatively impact our results of operations, including our revenues, growth and profitability.

Our profitability will suffer if we are not able to maintain current pricing and utilization rates.

Our revenues, and in turn our profitability, is largely based on the bill rates charged to clients and the number of hours our professionals work on client engagements, which we define as the utilization of our professionals. Accordingly, if we are not able to maintain the pricing for our services or an appropriate utilization rate for our professionals, our revenues, project profit margins and profitability may suffer. Bill rates and utilization rates are affected by a number of factors, including:

- Our ability to predict future demand for services and maintain the appropriate staffing without significant underutilized personnel;
- Our ability to transition employees from completed projects to new engagements;
- Our clients perceptions of our ability to add value through our services;
- Our competitors pricing of services;
- The market demand for our services;
- Our ability to manage our human capital resources;

Our ability to manage significantly larger and more diverse workforces as we increase the number of our professionals and execute our growth strategies; and

The economic, political and regulatory environment as noted above.

Additionally, the profitability of our fixed-fee engagements with clients may not meet our expectations if we underestimate the cost of these engagements.

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Our client engagements are generally short term in nature, less than one year, and may be terminated without penalty. These engagements are also frequently event-driven and therefore difficult to forecast. As a result, our inability to attract business from new or existing clients could have a material adverse effect on our results of operations.

We might not meet our current or future commitments if we do not continually secure new engagements.

Many of our client engagement agreements can be terminated by our clients with little or no notice and without penalty. For example, in engagements related to litigation, if the litigation is settled, our engagement for those services usually is no longer necessary and is promptly terminated. Some of our work involves multiple engagements or stages. In those engagements, there is a risk that a client may choose not to retain us for additional stages of an engagement or that a client will cancel or delay additional planned engagements. Our engagements are usually relatively short term in comparison to our office-related expenses and other infrastructure commitments.

In the past, we have derived significant revenues from events as inherently unpredictable as the California energy crisis, the Sarbanes-Oxley Act of 2002, 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 limit our ability to predict future revenues and make corresponding adjustments to our professional staffing levels, which in turn could 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 us.

Our professional reputation and that of our consultants is critical to our ability to successfully compete for new client engagements and attract or retain professionals. Any factors that damage our professional reputation could have a material adverse effect on our business.

In addition, our engagements are subject 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, could distract our management and could damage our reputation. We carry professional liability insurance, but our insurance may not cover every type of claim or liability that could potentially arise from our 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.

Some of the work that we do involves greater risk than ordinary consulting engagements.

We do work for clients that for financial, legal 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 a professional error or omission in one or more of these higher-risk engagements could have a material adverse impact on our financial condition. Examples of higher risk engagements include, but are not limited to:

- Interim management engagements, usually in hospitals and other healthcare providers;
- Corporate restructuring engagements, both inside and outside bankruptcy proceedings;
- Engagements where we deliver a fairness opinion;

Engagements where we deliver project management services for large construction projects;

Engagements where we deliver a compliance effectiveness opinion; and

Engagements involving independent consultants   reports in support of financings.

We increasingly encounter professional conflicts of interest.

If we are unable to accept new engagements for any reason, including a conflict of interest, our consultants may become underutilized or discontented, which may adversely affect our future revenues and results of operations, as well as our ability to retain these consultants. In addition, although we have systems and procedures to identify potential conflicts prior to accepting each new engagement, those systems are not fool-proof and undetected conflicts may result in damage to our reputation and professional liability which may adversely impact our financial results.

Our international operations create special risks.

We have offices in the United Kingdom, Canada, Hong Kong and Dubai and conduct business in several 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 and legal risks, including:

- Cultural and language differences;
- Employment laws and related factors that could result in lower utilization, higher staffing costs, and cyclical fluctuations of utilization and revenues;
- Currency fluctuations that adversely affect our financial position and operating results;
- Burdensome regulatory requirements and other barriers to conducting business;
- Managing the risks associated with engagements performed by employees and independent contractors with foreign officials and governmental agencies, including the risks arising from the Foreign Corrupt Practices Act;
- Greater difficulties in managing and staffing foreign operations, including in high risk geographies;
- Successful entry and execution in new markets;
- Restrictions on the repatriation of earnings; and
- Potentially adverse tax consequences, such as trapped foreign losses.

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

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

We work for various United States and foreign governmental entities and agencies. These projects have risks that include, but are not limited to, the following:

- Governmental entities 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 government 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 government 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 and affect future margins.

If a governmental client discovers improper or illegal activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and admini